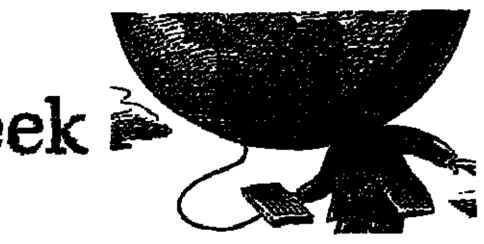
FINANCIAL TIMES

Start the week with...



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World Business Newspaper http://www.FT.com MONDAY NOVEMBER 11 1996

Eurotunnel share deals face probe by UK fraud squad

Britain's Serious Fraud Office is to probe London-based banks and financial institutions after claims that they were involved in manipulating the price of Eurotunnel shares. The move follows a request from French police. The Anglo-French Channel tunnel operator believes the investigation centres on events surrounding its £858m rights issue in May 1994. Page 16

Zaire crisis: Aid agencies boosted efforts to negotiate safe access for 1m refugees in east Zaire as prospects for early international intervention faded. Two mortar rounds hit rebel-held Goma, showing that Rwandan Hutu militias are still fighting for the town. Page 4

Israel strikes Lebanon: Israeli fighter jets attacked suspected guerrilla targets in south Lebanon after guerrillas had wounded three Israeli soldiers. In the West bank, Israeli troops shot dead a Palestinian and wounded 11 others. Israel opens doors, Page 4

Algeria pipeline opens: Algeria officially launched its $2.3bn, 865 mile-long Maghreb gas pipeline to Spain at the weekend.

Telecoms deal closer: US and European officials edged closer to deals liberalising telecoms and information technology trade. Page 6

Red light shootout: A German and a Turk were killed and four injured in a shootout at a brothel in Hamburg's St Pauli red light district.

Christian Salvesen, the Scottish distribution and power supply group, is to demerge its Aggreko equipment hire business. Recent brokers' estimates value Aggreko at about £400m. Page 19

Warning on jobs: Differences between unemployment rates in Europe's regions could widen with moves towards greater labour market deregulation, says a study for the Leverhulme Trust. Page 3; Two sides of coin, Page 17

Philips settles $3bn action: Dutch electronics group Philips has settled a lawsuit brought in Texas by the founder of Super Club, a Belgium-based home entertainment stores chain it rescued in the early 1990s. Philips did *not admit blame.* Page 18

China hits back: China will retaliate against the US next month for curbs on Chinese textile exports by suspending its own imports of some American products. Beijing said Washington had "severely violated the bilateral textile agreement". Page 5

Activists deported: Malaysia deported foreign activists held after a controversial conference on East Timor was broken up on Saturday. Page 4

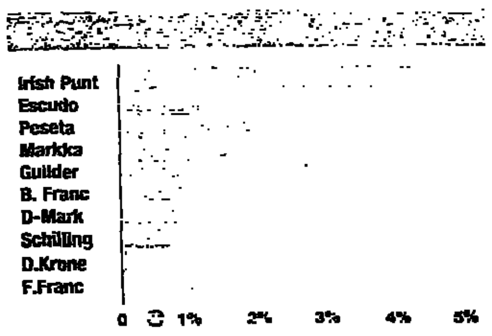
Burmese dissident attacked: Mobs acting with apparent approval of the Burmese military junta roamed parts of Rangoon yesterday, the day after one group attacked Nobel peace laureate Aung San Suu Kyi and other leaders of the pro-democratic opposition. Page 4

Moscow graveyard massacre: Thirteen people were killed in Moscow and 16 more wounded in an attack during a graveside memorial service. Police suspect crime gangs linked to Afghan war veterans' groups.

Store chain backs bean ban: UK frozen food retailer Iceland is backing a campaign against using genetically modified soya beans. Page 7

Tomorrow, the Financial Times will launch a new weekly series, Preparing For Emu, examining the practical challenges faced by businesses, financial markets, and governments as they prepare for European monetary union and the foundation of a single European currency, planned for 1999.

European Monetary System: The Irish punt remained at the top of the EMS grid last week as the spread between the strongest and weakest currencies widened. The French franc replaced the Danish krone as the weakest currency at the bottom of the grid. **Currencies, Page 25**



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Albania	LEK 275	Gibraltar	£1.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1 300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	Skr20
Egypt	E£5.00	Italy	L3300	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zł 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal	(m'land)	Turkey	L120,000
Germany	DM4.00	Lebanon	LL2500		Es265	UAE	Dh13.00

Banks fear lawsuits and loss of guarantees if Brussels rules practice illegal

EU state-backed loans challenged

By Emma Tucker in Brussels

The widespread practice by European Union governments of giving special assistance to ailing companies by guaranteeing their bank loans could soon be declared illegal under plans being considered by the European Commission.

"There is a lot of money sloshing around out there, about which the Commission knows very little," said one diplomat.

"Governments have become more and more devious about how they administer state aid, and using guarantees is a good example."

Government guarantees, which allow companies to borrow at cheaper rates than competitors, are being targeted in the Commission's latest efforts to stamp out illegal state aid in the single market.

The initiative is at an early stage, but is already making bankers nervous. They are worried about the implications if thousands of state guarantees on loans they have made to their customers are declared illegal. This could mean that the banks lose the safeguard of government backing. "This is the kind of thing bankers stay awake at night worrying about," said an industrialist.

Under EU competition rules, government guarantees on loans qualify as state aid and should be reported to the authorities in Brussels. But for years governments have not done so, which technically means that all such existing guarantees are illegal.

Mr Karel Van Miert, the competition commissioner, launched the latest initiative because he felt he could no longer overlook a practice that contravenes the EU's rules. He also faced pressure from international banks to clarify the situation.

"We have to know what the practical implications are for the banks," commented one banking official. "Banks benefit from the state guarantees but obviously we would prefer legal security."

The use of guarantees has become increasingly widespread as governments – worried about the negative publicity generated by old-fashioned cash handouts – have become adept at disguising state aid.

Although there are no figures, aid in the form of government loan guarantees is thought by some industry experts to amount to more than other forms of state aid, such as capital injections.

One idea under consideration by the Commission is to declare an amnesty on existing loan guarantees – to avoid destabilising the banking sector. At the same time it would insist that all future arrange-

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Karel Van Miert: *faced* pressure from banks

Paris aims to raise $5bn in telecoms sale

By David Owen in Paris

The French finance ministry is aiming to raise FFr25bn ($5bn) from April's sale of shares in France Télécom, the state-controlled telecommunications operator, in what is expected to be the country's largest privatisation.

This emerged as the government announced that two French banks – Banque Nationale de Paris and Banque Paribas – had been chosen to act as global co-ordinators of the float.

The deal should provide the vast bulk of the French government's expected privatisation receipts for 1997 of FFr27bn.

The FFr25bn target suggests ministers are expecting a valuation for the whole group, one of the world's biggest telecoms operators, of more than FFr130bn.

Mr François Fillon, telecommunications minister, said recently that the proportion of capital offered in the first of probably two tranches should be "about 20 per cent".

The government has promised to retain a 51 per cent holding in the group, which is due to be incorporated on January 1 1997, with a maximum of a further 10 per cent reserved for employees.

The FFr130bn figure assumes one-fifth of the group's shares are floated and that about 5 per cent of the money raised is consumed by advertising costs and advisers' fees. Current bank valuations of the company are pitched at FFr100bn-FFr200bn. The wide range is partly because details have yet to be agreed of interconnection charges for new operators when the French telecoms market is opened to competition in 1998.

A research paper published in June by BZW, the investment arm of Barclays Bank, pitched its central valuation at FFr147bn. This was based on projected group earnings growth of 10.7 per cent a year over the next five years.

Since then, the government has unveiled plans to open up the country's long-distance telephone market in a way that experts think will give France more effective competition in telecoms than most other large countries.

Mr Michel Bon, France Télécom chairman, has indicated that he expected the group's 1996 accounts to include net provisions of FFr15bn-FFr30bn, taking its net worth below FFr100bn.

The choice of two French banks to act as global co-ordinators was interpreted by some observers as a sign of the importance the government and France Télécom attach to ensuring that domestic French demand for the offering is strong.

The approach differs from that adopted for Deutsche Telekom, the soon-to-be-floated German operator. In that case, a foreign bank – Goldman Sachs of the US – was chosen as one of the global co-ordinators.

Two foreign banks – Merrill Lynch of the US and Deutsche Morgan Grenfell – are expected to be given lead syndicate positions for the France Télécom issue.

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Three British army officers salute after wreaths were laid in front of a war memorial in Hong Kong's central business district during a ceremony yesterday to honour servicemen killed in wars this century. It was the last Remembrance Day ceremony to be held under British rule in Hong Kong before the colony reverts to Chinese rule in July 1997. Picture: AP

Bhutto to face criminal charges

By Mark Nicholson and Farhan Bokhari in Islamabad

Criminal charges will be issued within a week against Ms Benazir Bhutto, the former Pakistani prime minister, whose administration was dismissed last week for alleged corruption, economic mismanagement and human rights abuses, the interim government said yesterday.

Mr Meraj Khalid, interim prime minister, also said that legal charges would soon be brought against Mr Asif Ali Zardari, Ms Bhutto's husband and former investment minister, who has been detained since her government's dissolution on November 5.

The statement followed the announcement at the weekend of a "very robust programme" of structural economic reforms by Mr Javed Burki, the new government's de facto finance minister who has joined the administration on leave from the World Bank, where he is vice-president of the Latin America department.

The Karachi stock market greeted the programme sceptically, with the KSE-100 Index

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Bonn still committed to Eurofighter, says Waigel

By Andrew Fisher in Frankfurt

Mr Theo Waigel, Germany's finance minister, sought yesterday to remove doubts about the Bonn government's commitment to the Eurofighter project at a time of increasing budget austerity caused by the struggle to qualify for European monetary union.

"The Eurofighter is necessary to replace the Phantom fighter aircraft, which are up to 40 years old," Mr Waigel said in an interview with Bild am Sonntag, the Sunday newspaper. The defence ministry would have to meet the "unavoidable expenses" of the involvement in Bosnia as well as equipment purchases.

However, his comments caused confusion among German defence officials who pointed out that no money had yet been set aside in the 1997 budget for the Eurofighter's continuing pre-production costs. Nor had provision been made for Germany's role in helping enforce the Bosnian peace settlement.

Mr Waigel was speaking after tough budget negotiations last week during which Chancellor Helmut Kohl threatened to resign over the tactics of the Free Democratic party, the minority partner in the ruling coalition.

But government officials said this was more of an attempt to discipline the coalition, led by Mr Kohl's Christian Democratic Union, than a threat to dissolve the government.

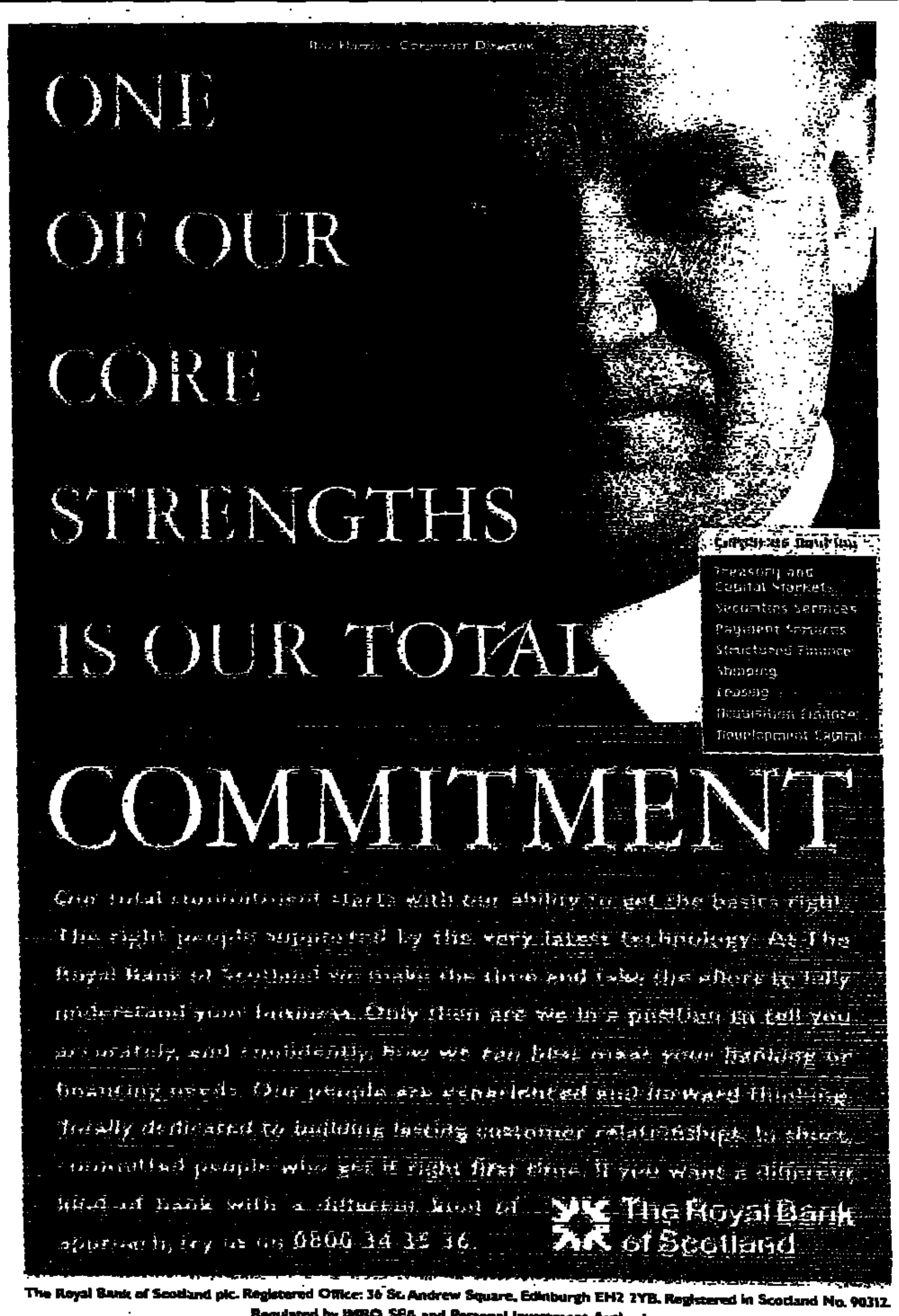
The FDP is pushing for a more rigorous tax-cutting policy and a firm commitment to abolish the solidarity tax surcharge levied to help pay for German reunification.

Coalition talks on spending cuts will continue today, but a decision on whether to cut the 7.5 per cent solidarity tax by two percentage points in 1998 has been put off until December.

Against the background of Germany's budget problems, the Eurofighter has become increasingly controversial. The defence officials said its financing was not just a matter for the 1997 budget, since the rising investment in the $65bn project with the UK, Spain and Italy would have to be spread over five years.

Mr Waigel's remarks suggested that a compromise could be reached on next year's pre-production costs between the government and Deutsche Aerospace (Dasa), the Daimler-Benz subsidiary which is the main German contractor.

The government has offered to put up DM100m ($66m) while Dasa wants DM392m.



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Italy's middle classes take to streets

Berlusconi orchestrates protests against tax plans and wins TV slot, reports **Robert Graham**

Mr Silvio Berlusconi, the rightwing political leader and billionaire, has taught Italy's middle classes how to take to the streets in protest.

Over the weekend Mr Berlusconi and his meticulous managers orchestrated the appearence of more than half a million people in Rome to demonstrate against the centre-left government's plans to raise taxes. The turnout was bigger than the most optimistic calculations of the Berlusconi camp, which was concerned that the "silent majority" supporters lacked the stomach for a long walk and the enthusiasm for protest.

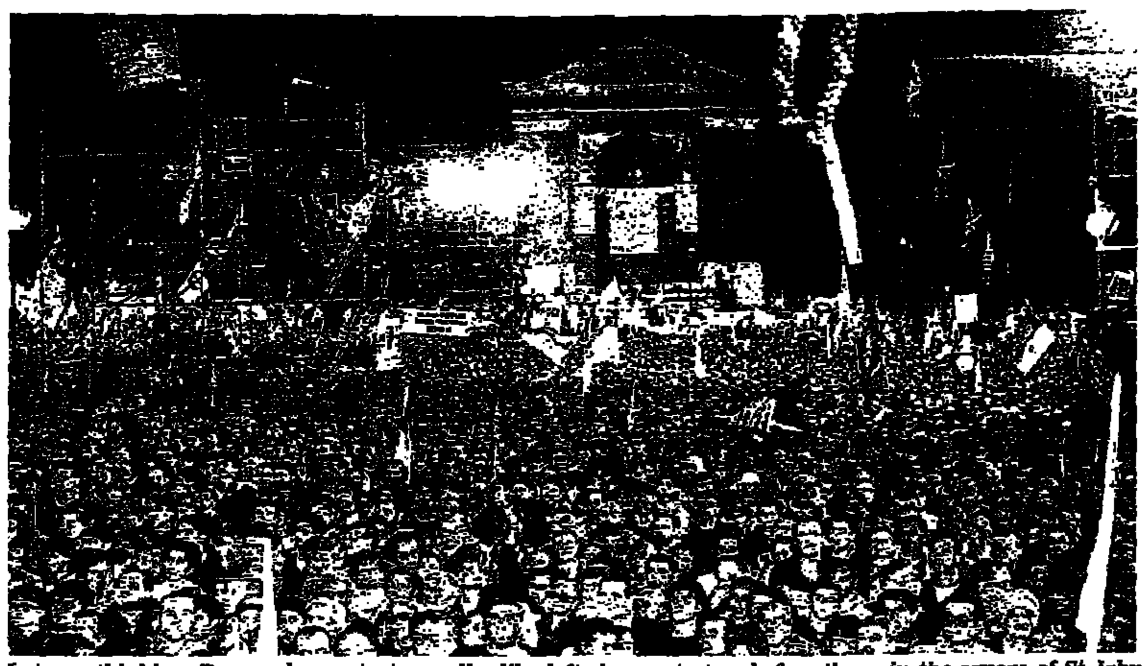
As a result the opposition has strengthened its hand in crucial debates on the 1997 budget this week. The Prodi government hopes to push the budget provisions through the chamber of deputies by the end of the week. But to do this without inflaming the atmosphere, the government may now have to make some concessions to the opposition.

It was the first time since entering politics in January 1994 that Mr Berlusconi had marched through the streets behind the banners of a protesting crowd. Indeed, he had eschewed big public events and preferred to communicate his political messages via television, not least his own three channels. He appears to have changed his mind because of the increasing inability of the rightwing opposition to make an impact in parliament and a feeling he could capitalise on a wave of discontent over budget austerity.

The occasion was a personal success for Mr Berlusconi despite the extraordinary anomalies of his position. He is standing trial for alleged involvement in bribing tax inspectors, while he is capitalising politically on anti-tax sentiment.

The success was in part due to the organisational skills of a former general, a budget reported to be of L1.4bn ($920,000), and a warm Saturday afternoon. But it was also because an important segment of society wanted to show that the big mass demonstration was no longer the exclusive preserve of the left and the trades unions as it had been throughout post-war Italy.

This point was brought home by Mr Berlusconi, wearing a double-breasted business suit for the occasion; and by the image of a woman demonstrator taking off high heels to put on sensible walking shoes before beginning her march. Demonstrators, most of whom walked in silence deliberately avoiding slogans, willingly conceded they were middle class – professionals, businessmen, shop-keepers. The proletarian side came from the ranks of the rightwing National Alliance, which also provided the noise. The two-hour march ended with a rally in the huge square of St John the Lateran, the traditional venue for every big leftwing rally – rubbing home the point that the left no longer monopolised protest.



Lateran thinking: Roman demonstrators rally, like leftwing protesters before them, in the square of St John the Lateran on Saturday Picture: Associated Press

After some rough bargaining, Mr Berlusconi secured live coverage of the event on the state-run Rai TV. The government could scarcely refuse, since exhaustive coverage had been extended two years ago to the million-strong demonstration against the Berlusconi government's pension reform plans – a protest which accelerated his exit from the premiership. However, Mr Berlusconi had to content himself with Rai's third channel which he calls Telekabul because of long-standing control by the left. Afterwards he complained of being hard done by, not least because of time devoted to a 120,000-strong rival demonstration staged in Naples by former communists to call for more jobs.

Moscow 'must lift trade curbs to join WTO'

By John Thornhill in Moscow

Russia must take further steps to liberalise its foreign trade regime if it wants to propel economic reform forward and realise its ambition of joining the World Trade Organisation, according to Mr Hans van den Broek, the EU's commissioner for external policy.

Following talks with senior Russian officials in Moscow last week, Mr van den Broek said the EU had agreed to step up technical assistance to Russia to help remove remaining trade barriers and encourage much-needed foreign investment.

EU officials will meet Mr Oleg Davydov, Russia's trade minister, later this month to address mutual concerns over protectionism affecting such industries as alcohol, steel and textiles.

Since the break-up of the Soviet Union, the EU has emerged as Russia's biggest trading partner but the relationship has been marred by mutual recriminations over unfair trading practices.

"We would like to identify and analyse all the obstacles to foreign trade in the form of tariff and non-tariff policies," Mr van den Broek said.

The EU commissioner praised the Russian government for its "remarkable" progress in reforming the economy over the past four years, reducing inflation to less than 1 per cent a month and substantially cutting its budget deficit.

But he suggested it would take longer than most observers originally expected for central and eastern European countries to build fully-functioning market economies compatible with EU membership.

"They have to be prepared not only for co-operation but integration into a fully-fledged market economy, with a single market and a level playing field as well as meeting the same democratic standards and respect for law as is our habit," he said.

Mr van den Broek said the EU's Tacis technical assistance programme was designed to help Russia address many of the "bread and butter" concerns, such as tax reform, industrial restructuring, and encouraging small enterprises, needed to make the economy work more effectively.

■ Russian officials will today begin a series of presentations in western financial centres to prepare the way for the country's first sovereign eurobond.

Bosnian Serbs name army chief

By Laura Silber in Belgrade

The successor to General Ratko Mladic, an indicted war criminal, yesterday formally took over as Bosnian Serb army chief in an attempt by the Serb civilian leadership to deflect international pressure.

Major General Pero Colic vowed to "defend the sovereignty, territory, independence and constitution of the fatherland, and loyally serve the interests of its people" in a ceremony in Pale attended by Bosnian Serb President Biljana Plavsic, the Bosnian Serb news agency Srna reported.

Citing international objections to having a suspected war criminal head the Bosnian Serb army, Mrs Plavsic on Saturday announced she had sacked Gen Mladic and his deputy.

Western diplomats said it was unclear whether Gen Mladic and his closest aides, who yesterday were meeting in army headquarters, would heed Mrs Plavsic's order.

Like former Bosnian Serb President Radovan Karadzic, who as an indicted war criminal was forced to resign in July, Gen Mladic remains out of the public eye. But Mr Karadzic is still believed to wield considerable influence behind the scenes. Under the Dayton peace accords, indicted war criminals cannot hold office and must be handed over to the international tribunal in The Hague.

The sacking could be a cosmetic attempt to reduce international pressure. At the same time, however, the Bosnian Serb political and military leaderships have been at odds – the military accusing the civilian leadership of war profiteering while depriving the army of resources.

In turn, the politicians have accused the military top brass, which remains on the payroll of the Serb-led Yugoslav army, of loyalty to Belgrade rather than Pale.

The sacking could be a step by Pale to distance itself from President Slobodan Milosevic of Serbia, who last week again came under strong US pressure to comply with the Hague tribunal.

Gen Mladic, accused of directing the siege of Sarajevo and overseeing the murder of up to 8,000 Moslem men in Srebrenica when Serb forces last July overran the eastern Bosnian enclave, remains popular among Bosnian Serbs.

Swiss seek to clear good name

By William Hall in Zurich

The Swiss government has summoned the ambassadors of its main overseas embassies to Bern this week to discuss ways of repairing the country's international image following weeks of international accusations about Switzerland's wartime dealings with Nazi Germany.

Swiss efforts to get a fair hearing for its side of a story, which has stirred strong passions abroad, have been undermined by a number of diplomatic blunders. Mr Carlo Jagmetti, ambassador in Washington, has come under particular fire for his comments about supposed withdrawals from a bank account linked to Greta Beer, a holocaust survivor.

The ambassadors of Switzerland's 12 most important embassies will meet on Friday to discuss ways of regaining the diplomatic initiative in an affair which is seriously damaging the country's international reputation.

Meanwhile, Mr Thomas Borer, the diplomat in charge of co-ordinating Switzerland's response to the various allegations, has accused Mr Alfonse D'Amato, chairman of the US Senate banking committee, of drawing sensational conclusions from isolated documents before the full facts have been established.

Swiss efforts to regain the initiative face an early test tomorrow when the Swiss banking ombudsman gives his first progress report on efforts to trace the beneficiaries of dormant bank accounts which have lain unclaimed in Swiss banks for over 50 years.

Last month the World Jewish Congress described the ombudsman's efforts as a "cruel farce perpetuated on holocaust survivors by the Swiss banking industry".

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Ministers to seek pact on Emu budget deficit rules

Waigel: test of strength

By Lionel Barber in Brussels

EU finance ministers will today try to break the deadlock over *German demands* for firm rules on when countries taking part in the future single currency zone will be allowed to run excessive budget deficits.

A majority of countries, led by Britain and Spain, consider the German approach too rigid. The impasse means EU leaders may be unable to meet their earlier pledge to agree on the nuts and bolts of economic and monetary union at a summit in Dublin next month.

A delay in agreement on the so-called Stability Pact would not necessarily scupper the Emu timetable, but it could damage confidence in the financial markets.

In recent weeks, bond and currency traders have become increasingly upbeat about the prospects for a broad-based European monetary union including weaker economies such as Spain and, perhaps, Italy.

The markets' favourable sentiment toward Emu contrasts with the mood among monetary officials, who are predicting a bruising phase of negotiations on the Stability Pact and on the delicate issue of the Italian lira's planned re-entry into the European exchange rate mechanism.

The centre-left Italian government would like to speed approval of the 1997 budget to *allow ERM negotiations* to start later this month, but officials in Brussels caution that the re-entry level will prove contentious.

Italian ministers have talked off-the-cuff about a level of L1,000 and L1,050 *against the D-Mark for* the lira's re-entry, and the Bank of Italy has been intervening in the markets to ensure the lira hovers around L1,000. But France, in particular, is determined to prevent Italy stealing a competitive advantage with an undervalued currency.

Meanwhile, negotiations on the Stability Pact have become a test of strength for Mr Theo Waigel, Germany's finance minister. He called last year for firm rules on fiscal discipline as a guarantee against fiscal delinquency among Emu participants and as an insurance policy against an overly flexible reading of the Maastricht targets for Emu, especially on public deficits.

The key German demand is to define precisely the level of economic weakness under which countries are allowed to run excessive budget deficits. Germany wants a decline of 2 per in GDP over four consecutive quarters.

The European Commission initially proposed an annual fall of 1.5 per cent in GDP but the figure was rejected at a meeting of all EU commissioners last month on the grounds that it was too rigid and made no economic sense.

Neither German commissioner backed the initial proposal put forward by President Jacques Santer and Mr Yves-Thibault de Silguy, EU monetary affairs commissioner, both of whom warned about the likely negative reaction from the Bundesbank, according to two officials present.

On several occasions, German officials have threatened to abandon negotiations on the Stability Pact with the 14 other EU countries and wait instead until the first wave of Emu members is chosen in early 1998 and seek a separate stability treaty among the chosen few, including France.

Though the German threat is seen in Brussels as a negotiating tactic, it has alarmed some countries who view it as a ruse to build an exclusive political club around France and Germany.

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Santer: warned of reaction

Warning of delays to paying taxes in euros

By Gillian Tett, Economics Correspondent

European companies may be prevented from paying taxes and filing accounts in the single currency in 1999 unless governments speed preparations for European monetary union.

Several European governments – including France and Germany – have privately indicated to business groups that they may be unable to accepting corporate payments in the single currency, the euro, in 1999.

The problem could hamper adoption of the euro in the corporate sector at the start of Emu.

The European Commission will raise the issue at a meeting of national accountancy and tax authorities tomorrow. However, some officials have acknowledged that companies will not have the right to pay their taxes and accounts in euros in 1999 unless their governments agree.

The issue has provoked irritation from business groups, who suggest that it may contravene the spirit of the Emu timetable.

A senior official at Unice, the EU business group, said: "We are becoming really very concerned about the public administration's relative lack of preparation for Emu – everybody is urging companies to get ready, but what are the governments doing?"

The official Emu scenario stipulates that nobody can be either "compelled" to use or "prohibited" from using euros in the transition period between 1999 and 2002. During this period the euro will exist as a unit of account, but national notes and coins will continue to circulate.

Several large EU companies, *including Siemens and* Philips, want to switch to accounting in euros as soon as possible in 1999. This move has been welcomed by EU governments, as a sign of faith in Emu.

However, business groups argue that companies will be reluctant to follow this pledge if governments effectively "prohibit" them from paying taxes and accounts in euros.

Unice added: "If governments take different approaches, this could cause competitive distortions."

So far Belgium is the only EU country to pledge publicly that it will accept corporate payments in euros in 1999. The German and French governments have not made a public decision. One French official said: "The matter is still under debate."

But they have privately indicated to business groups that they may not be ready to accept payments in both national currencies and the euro in 1999. And some French observers believe that it will be difficult for the French government to copy the Belgian move.

Mr Pierre Simon, a director of the group Campagnie *Bancaire* who is chairing a research group on the issue, said: "It is easier for the Belgians – they are used to handling many currencies."

However, Unice is pressing the European Commission to raise this issue at the summit of EU governments in Dublin next month.

And French business groups are now lobbying their government over the issue. *Ms Agnès Lépiney* of the French employers group Patronat said: "What French companies want is a decision like in Belgium – they want to be able to pay taxes in euros when they want."

'Labour market disparities may widen'

By Robert Chote, Economics Editor

Adoption of a single currency could widen the disparities among regional unemployment rates in Europe, with moves towards greater labour market deregulation making things even worse, according to new research.

A report commissioned by the Leverhulme Trust from academics at Cambridge University argues that regional unemployment rates in Europe have shown little tendency to converge in two decades. This poses a potential obstacle to the achievement of regional cohesion across the European Union, the academics argue.

These findings chime with the views of Mr Eddie George, the governor of the Bank of England. He has argued that the discussion of preparations for a single currency has rightly concentrated on bringing inflation rates, government deficits and currencies into line, but without taking sufficient account of differences between labour markets.

"In labour market terms there is little evidence of any widespread convergence amongst regions, but rather of persistent disparities," the Cambridge team argues. "This implies that monetary integration could well exacerbate the scale of regional unemployment disparities across member states."

The EU runs the risk of higher unemployment and interest rates as it moves toward a common currency, the financial rating firm Standard & Poor's has warned, AFP reports from New York. The agency's study of European monetary union, released today, also says the adoption of a common exchange rate would "accelerate the flight of manufacturing capacity to low-cost areas".

Differences among unemployment rates in the various European regions have been very persistent, affected only temporarily by the ups and downs of the business cycle.

This suggests that the forces underpinning these differences must be deeply rooted in the economic and institutional fabric of the areas concerned, the academics argue. "The implication is that even quite large improvements in the labour market flexibility of the least prosperous areas of the EU may not have much impact on the scale or pattern of regional unemployment differences either within individual countries or between them."

Newly published research by economists at the International Monetary Fund has also emphasised the dangers posed to the single currency project by differences in labour markets across the continent. It points out that Europe has a much less integrated labour market than the US – partly because of the lack of a single language.

The study argues that Europeans find it relatively easy to move to jobs in different industrial sectors, but that labour does not flow easily across national borders.

European Regional Unemployment Disparities: Convergence or Persistence? by M. Baddeley, R. Martin and P. Tyler, Department of Land Economy, Cambridge University. Currency Unions, Economic Fluctuations and Adjustment: Some New Empirical Evidence. by T. Bayoumi & E. Prasad, IMF Working Paper 96/81.

TNT takeover approved

By Neil Buckley in Brussels

The European Commission has given the go-ahead for the A$2bn (US$1.6bn) takeover by KPN, the Dutch postal group, of Australia's TNT, the transport and express delivery group. The deal will create the most extensive express mail network in Europe and one of the world's four biggest time-sensitive distribution and logistics groups.

After a one-month inquiry, the Commission said late on Friday it was satisfied that *existing EU and Dutch* law would prevent the new group from creating a dominant position and discriminating against competitors.

The Commission also approved a bid by PTT, a subsidiary of KPN, to take full control of GD Express Worldwide, formerly under *joint control of PTT* and TNT.

But Mr Karel Van Miert, EU competition commissioner, is expected to tell fellow commissioners this week that partners in a proposed Spanish cable television venture have decided not to proceed with the deal.

A decision by the partners in the Cablevision venture – Telefónica, the Spanish telecoms group, and Sogecable, the pay-TV group owned by Promotora de Informaciones of Spain and France's Canal Plus – would mean the Commission would not have to veto the deal formally.

Mr Van Miert indicated last week he would recommend blocking the deal, after the Commission's advisory merger committee concluded that the venture would create a dominant position in Spain's underdeveloped cable TV market.

Refugees trapped in a deadly maze

Complex struggle in Zaire could end in a brutal showdown, writes Michela Wrong in Gisenyi

As the days have stretched into weeks and the international community has agonised over sending troops to save more than 1m Rwandan refugees trapped in east Zaire, the shouts of alarm from aid organisations have been rising to a crescendo.

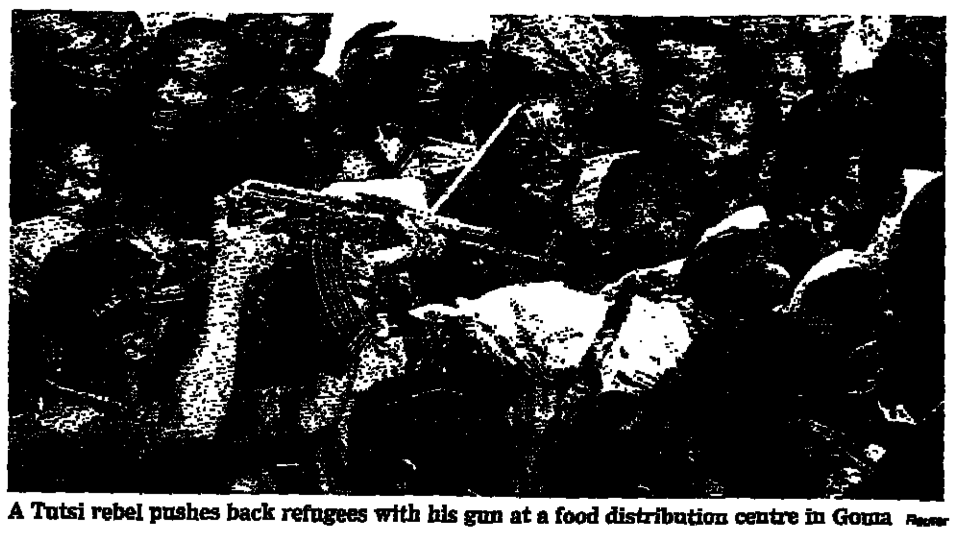
But even when images of refugees dying from hunger and disease start filtering through rebel lines, ending a virtual media blackout, effective action to set up humanitarian corridors drawing the refugees home to Rwanda will remain in doubt.

For if the controversial French intervention in Rwanda in 1994 was fraught with difficulty, the risks now confronting an international operation two years later are far greater, the dangers of failure more extreme.

When Paris launched "Operation Turquoise" to establish a safe zone in Rwanda, the base for its logistics, Zaire, was a relatively stable country and an ally France could depend on.

The Interahamwe militiamen and former soldiers spearheading the post-genocide mass exodus from Rwanda regarded the French soldiers as rescuers and were prone to co-operate. The advancing Rwanda Patriotic Front rebels were furious, but they balked at taking on French troops.

Today the scenario is far more complex. President Mobutu Sese Seko, the international community's natural interlocutor, lies weak in his Riviera villa after cancer treatment. Analysts question the very survival of Zaire as a nation state.



A Tutsi rebel pushes back refugees with his gun at a food distribution centre in Goma Reuter

A four-pronged rebel coalition now controls access to Goma airport, the natural centre for relief operations. The strength of the group's alliance and its precise relationship with the Rwandan government backing its annexation of much of Kivu province remain unclear.

Well armed and desperate, the extremists who carried out Rwanda's genocide and have controlled the camps along the frontier are ready to use the refugee population as a human shield and likely to regard any outside interference as a threat to their existence.

To top it all, France, the only nation ready to take the lead in an international military intervention, is regarded by the rebels, the Rwandan government and some western nations as too tainted by its friendship with the regime of the late President Juvenal Habyarimana to be allowed to play that role.

Last week both Rwandan President Pasteur Bizimungu and the rebel Alliance of Democratic Forces for the Liberation of Congo-Zaire categorically ruled out French participation. As Mr Seth Kamanzi, the president's adviser, commented: "The French have been part of the problem of this region, they cannot be part of the solution."

The Rwandan government's views matter. After Goma, Kigali would be the obvious choice for an airport where large numbers of foreign troops could land.

There was a time when there was room for optimism. Originally, aid organisations believed the rebels' drive to empty the Kivu camps, neutralising the extremists who have destabilised the Tutsi regimes of Rwanda and Burundi, had succeeded in breaking the power of the men blocking a mass return.

That hope evaporated last week as aid workers reported that Mugunga – the camp west of Goma which was at one point believed to have been abandoned – was full again and the extremists preparing for a final showdown with the Rwandan-backed rebels.

"The refugees are moving in an organised way, not willy-nilly in all directions," reported a Kigali-based diplomat shortly before a ceasefire collapse and new fighting broke out. "The suspicion is that the Interahamwe are still in control."

In such circumstances, the original idea floated by the United Nations High Commissioner for Refugees of self-policing humanitarian corridors seems misplaced, a full-blooded military intervention unavoidable.

The medical charity Médecins Sans Frontières (MSF) says any international force sent with a UN mandate weaker than Chapter Seven – the mandate which allowed troops to launch a manhunt for Somalia's warlord Mohamed Farah Aideed – would be worse than useless.

"We have to secure the area, not defend aid workers," says Ms Samantha Boulton, MSF spokeswoman. "Separating the extremists from the refugees is not going to be done by defending a food convoy."

As the anguished debate drags on, several possible scenarios are unfolding:

■ In the best of all possible worlds, the refugees would reject their leaders and drift back to Rwanda of their own accord, pushed by the realisation no more food will be delivered in Zaire. This seems doubtful, given the lynchings used to cow refugees in the past.

■ An international force could go in, guns blazing, to separate the extremists from their subject population. But as the Rwandan government estimates the number of intimidators at 150,000-200,000, this would mean declaring war on a sizeable community – a prospect most western nations would balk at.

The refugee population could be pushed west by the rebels, settling in the hills of Masisi. This would raise the possibility of clashes with indigenous Zaireans and create a Hutu homeland which would continue, from a greater distance this time, to destabilise neighbouring countries. The rebels and Rwandan government are unlikely to agree.

■ In the worst-case scenario, the last chapter of Rwanda's civil war will be fought in Kivu as the rebels purge the extremists in Mugunga, heedless of the danger to the refugees.

Analysts are already talking of "Mugunga's last stand" and a tragedy that could dwarf what happened in Kibeho, when Rwandan troops attacked a camp holding armed extremists and hundreds, if not thousands, died in the stampede.

Many believe the reason media coverage of the conflict has been so carefully controlled is because the rebels are determined not to allow shocking television coverage of such a showdown that could force the international community to act and discredit Kigali and its friends in western eyes.

"The Kibeho option may not be an option people want to see, but it may be the only one left," says an official from the International Organisation of Migration. "It will be a disaster, but I think we are moving in that direction."

Zaire aid hopes given a boost

By Antony Goldman in Kigali

Aid agencies in Rwanda redoubled efforts to negotiate safe access to eastern Zaire yesterday as prospects for an early intervention by an international military force receded.

Britain, Russia and the US continue to have deep reservations about France's call for the deployment of a 5,000-strong force, approved in principle by the United Nations Security Council on Friday night.

Mr Malcolm Rifkind, the British foreign secretary, emphasised that troops should not be sent in to the region until it was quite clear what their role and the rules of engagement would be, and the risk to them was assessed.

Asked if there could be British troops in Zaire by next Sunday or the Sunday after, Mr Rifkind replied: "I think that's the direction we're moving."

But he added: "Even when you take the decision, it takes a little while... the pure logistics of getting people to the heart of Africa" took time.

"We accept that speed is of the essence, but it can't just be done by passing a resolution at the UN Security Council," he said in a BBC interview.

"My own view is that what we *should* be *thinking* of in the longer term is an African regional force," Mr Rifkind said.

Aid agencies which have been forced to pull out of eastern Zaire were hopeful yesterday that limited relief operations might be able to resume early next week.

Mr Omar Bakhet, the senior UN official in Rwanda, held talks over the weekend with rebel leader Laurent Kabila, seeking agreement for a humanitarian operation in rebel-held territory that could get under way by tomorrow.

Mr Bakhet said assessment teams, along with some emergency aid, were scheduled to enter Zaire today from the Rwandan border towns of Cyangugu and Gisenyi.

The teams would then lay the ground work for a larger humanitarian operation.

Mr Kabila's Alliance of Forces for Democracy and Liberation has declared a unilateral ceasefire to allow humanitarian workers into Kivu province, but said the fight against Zaire's President Mobutu Sese Seko would continue.

INTERNATIONAL NEWS DIGEST

Call to ease third world debt

Developing countries owe \$245bn-\$300bn to non-OECD official creditors, primarily Russia and Gulf Arab financial institutions, according to new estimates by the United Nations Conference on Trade and Development.

The figure – equivalent to a quarter of total developing country debt – is much higher than previously thought. For some debtor countries, such as Angola, Ethiopia, Mauritania and Mozambique, non-OECD debt makes up more than 50 per cent of their total debt.

The study says arrears have grown in the 1990s while new loans have fallen sharply in the wake of the collapse of the Soviet Union and economic constraints on the Arab oil states.

In sub-Saharan Africa, a prime target of the recent initiative by the World Bank and IMF to help heavily indebted poor countries, Russia and Arab financial institutions together account for 83 per cent of non-OECD debt. Russia alone is owed \$16.8bn by countries in the region.

The study calls for measures enabling relief to be granted on non-OECD debt on similar terms to those already agreed for OECD debt in the Paris Club and elsewhere. *Frances Williams, Geneva*

Reducing sub-Saharan Africa's debt to non-OECD official creditors: Sharing the burden. Available from Unctad.

Israel opens doors a little

Israeli security forces yesterday moved closer to lifting the eight-month-long closures of the West Bank and Gaza after allowing 35,000 Palestinians into Israel to work. However, certain restrictions will remain – only married men over 30 will be allowed to enter Israel and they will be permitted to work only in certain sectors, such as agriculture, hotels and factories.

Mr Samir Hulelleh, a Palestinian Authority official, said the closures had led to a sharp fall in revenues, while gross domestic product per head had fallen by 25 per cent.

The easing of the closures coincided with renewed tension between Israeli defence forces and Palestinians in the West Bank town of Ramallah, scene of violent clashes in September. A Palestinian was shot dead and 11 were wounded after 200 Palestinians had protested against the confiscation of 500 hectares earmarked for Jewish settlements. *Judy Dempsey, Jerusalem*

Malaysia expels activists

Malaysia yesterday began deporting foreign activists who took part in a controversial conference on East Timor. But the government denied it had backed the youths who broke up the meeting.

An immigration department spokesman at Kuala Lumpur airport said 16 activists were expelled. They included five Australians, four Americans, three Japanese, two Portuguese and two Sri Lankans. "Another 10 may leave today," he said.

Deputy Prime Minister Anwar Ibrahim said the government did not sanction the actions of the group which broke up the conference, although the youths belonged to groups allied to the three main political parties in Prime Minister Mahathir Mohamad's ruling coalition.

The Malaysian government said last week it did not want the conference held as it could harm relations with Indonesia, which invaded East Timor in 1975 and annexed it from Portugal the following year. *Reuter, Kuala Lumpur*

Burmese dissident harassed

Mobs acting with apparent approval of the Burmese military junta roamed parts of Rangoon yesterday, after one group attacked Ms Aung San Suu Kyi and other leaders of the pro-democratic opposition on Saturday. But fewer were on the streets and no further violence was reported.

A 200-strong mob set upon cars carrying Ms Suu Kyi and two key supporters on Saturday, using fists and sticks to break windows and dent the vehicles. The dissident leader said the mob actions were orchestrated by Burma's military regime. In Washington, the US State Department urged the Burmese authorities to punish those to blame for the attack and to "take every possible means" to ensure Ms Suu Kyi's safety. *AP, Rangoon*

Bangladesh political tension

The opposition Bangladesh Nationalist party (BNP) yesterday decided to boycott an important parliamentary debate and threatened to stay away from the whole session of parliament unless 10 demands were met. The BNP deputy leader, Mr Badrodozza Chowdhury, said it was meaningless to join the current session of parliament "if we are constantly ridiculed on the floor of the House and outside it".

The decision is another sign of growing tension between the government and the opposition only five months after relative calm returned to the country with the election in June. "We do not want to resort to street agitation, but if the government pushes us to that point, then we would have no choice. We still believe that good sense will prevail on the government side," said Mr Chowdhury.

The BNP's demands included the appointment of an impartial Speaker of parliament, objective political coverage by the state-run radio and television, and an immediate improvement in law and order. The party says its members have come under increasing harassment and even physical attack. *Kasra Naji, Dhaka*

BP in \$900m Oman venture

Oman said yesterday it had appointed BP Chemicals – a unit of British Petroleum – as its partner in a \$900m petrochemical complex to produce 450,000 tonnes a year of ethylene and polyethylene.

The official Oman News Agency quoted Minister of Commerce and Industry Makboul bin Ali Bin Sultan as saying the complex would start production by the year 2000. Teams would meet from today to discuss details of the project, which he said was an important part of the sultanate's industrial strategy. *Reuter, Muscat*

Oil strike threat in Venezuela

Venezuelan oil workers have protested – and may go on strike this week – over the opening of the industry to private sector companies.

Fedepetrol, the oil workers' union, filed a petition last week and said it might go on strike in the country's most important oil producing state, Zulia, if talks due today with Petróleos de Venezuela (PDVSA), the state oil company, failed. Zulia accounts for over half of the country's oil production.

The workers fear private oil companies contracted by PDVSA may not respect collective labour contracts. They could then lose important benefits, such as health, education and food bonuses. *Raymond Colitt, Caracas*

Lebanon casino to reopen

Casino du Liban, a famed Middle East entertainment establishment before Lebanon's 1975-90 civil war, will reopen next month after being closed for more than 20 years. It will open to the public on December 4, a day after an official opening by Lebanese President Elias Hrawi.

The casino, once a symbol of Lebanon's high life, was damaged in battles between rival militias during the war. Compagnie du Casino du Liban signed a \$50m syndicated loan agreement in May with 10 Beirut banks to finance renovation of the casino, which overlooks the bay of Jounieh north of Beirut. *Reuter, Beirut*

Beijing to retaliate over US trade curb

By Sophie Roell in Beijing

China will take retaliatory action against the US for curbs on Chinese textile exports by temporarily suspending imports of some US products, the Xinhua news agency announced yesterday.

The suspension will take effect from early next month and will cover Chinese imports of some US textiles, agricultural products and alcoholic drinks.

Xinhua condemned the US decision to cut import quotas on Chinese textiles, saying it had "severely violated the bilateral textile agreement". The agency accused Washington of imposing penalties without full consultation and clear supporting evidence.

In September, the US cut Chinese textile and clothing import quotas following customs investigations, which it alleged had uncovered widespread fraud in shipments of Chinese-made clothing to the US.

At issue were products apparently originating from China but falsely identified as being made in other countries in order to avoid US quota restrictions.

In addition to cutting import quotas on 13 categories, the US for the first time imposed punitive "triple" charges in five categories where there were thought to have been repeated violations. The action was expected to cost China $19m.

Chinese officials have denied the allegations, saying Chinese enterprises were the victim of fraud by importers and third parties.

Mr Li Dongsheng, director of the trade administration department at the ministry of foreign trade and economic co-operation, said last month that the US "lacked essential evidence to prove that the goods originated in China".

He said that in at least one case the transhipment of the goods was "a conspiracy by US importers and lawbreaking businessmen outside the Chinese mainland, while Chinese enterprises were innocent".

China said it had urged the US to withdraw its decision but its plea had been ignored, leaving it with no choice but to take action.

Xinhua did not indicate which specific products would be targeted, but said relevant government departments were compiling a list.

China's exports to the US have soared this year, but a 36 per cent fall in the volume of textile exports has left Beijing grumbling against US attempts to set up "barriers" in the textile trade.

A change in US "country of origin" customs rules which came into effect in July prompted China to attack the US for damaging Chinese enterprises and further reducing the country's "already insufficient" quota.

Sino-US trade relations have seen a number of ups and downs – with a trade war only narrowly averted earlier this year, after the US threatened to impose up to $2bn in sanctions on China for lax protection of intellectual property rights.

● China may appeal to the International Court over the European Union's decision to impose tariffs on Chinese-made shoes to stop alleged dumping, an official newspaper said yesterday, AP reports from Beijing.

The China Daily Business Weekly said shoemakers affected by the tariffs were asking the Chinese government to take legal action. China protested against the EU decision last week.

ILO changes tactics on labour reform

By Frances Williams in Geneva

The International Labour Organisation is to explore new ways of promoting good employment practices and social responsibility among enterprises.

These might include an ILO-sponsored code of practice for multinational corporations and an extension of "social" labelling schemes such as the Rugmark.

The ILO's first "enterprise forum" ended a two-day session on Saturday. It signals an important switch of emphasis for the organisation, which has become increasingly concerned about its effectiveness.

Mr Michel Hansenne, director-general, said last week that the ILO's traditional standard-setting activities were inadequate to cope with the globalisation of the world economy and the increasing economic and social power of multinationals. If the ILO wished to continue as the "social conscience" of the international economic system it needed to involve enterprises directly, he said.

The ILO, the oldest United Nations agency, established in 1919, has a tripartite membership representing governments, employers and trade unions. But the system is breaking down with fewer workers joining unions and a decline in governments' control of economic events.

Many companies have adopted their own ethical codes, but there was broad agreement at the forum that more generally applicable guidelines were needed. The 600 participants included executives from Body Shop, Ikea, Bechtel, Lufthansa, Hitachi and Shell, as well as academics, trade unionists, employer representatives and government officials.

The ILO is planning a detailed study next year of such "social" labelling schemes as the Rugmark, which certifies that carpets have not been made with child labour.

The forum also discussed a proposal for ILO awards to enterprises with good employment practices.

US group to invest in China entertainment

By Tony Walker in Beijing

MCA, the US entertainment giant, plans to invest at least $200m in China by the year 2000 – in amusement centres, including picture theatres, in retail outlets and possibly in theme parks.

Mr Edgar Bronfman, chairman of Seagram's, parent company of MCA, said there was "huge potential" *in the entertainment industry* in China. The company was according its China investments "high priority".

Tropicana Dole Beverages of North America, a unit of Seagram's beverage group, was also stepping up its presence in China with plans to invest $20m-$30m in processing and distribution facilities in southern regions and in the "Three Gorges" area of south-west Sichuan province.

Tropicana is seeking to develop a citrus-growing and processing base in the Three Gorges region, where China is building a $30bn hydroelectric power project on the Yangtze. The work is displacing an estimated 1m people but Tropicana, in partnership with China's ministry of agriculture and local authorities, believes the region could become the country's Florida.

Mr Stephen Herbits, executive vice-president for corporate policy at Seagram's, said the "family company" was taking its time over its China investments because it could afford to take a "longer-term view". But he said it intended to step up its involvement.

The company was also pressing China to lower duties on imported liquor – excise on liquor is about 70 per cent – and tighten customs procedures to encourage orderly distribution. Liquor smuggling is rife.

Mr Bronfman said that among possible longer-term projects for MCA was a theme park in southern China. MCA was interested in "citywalk" projects, multiplex cinema centres throughout the country and retail outlets primarily for MCA products.

But the Seagram's chief made it clear MCA would start cautiously. It was considering "concepts" with local partners, such as smaller-scale entertainment complexes in key cities.

Mr Bronfman said that within six months he expected MCA to be "doing rather than talking".

MCA, which Seagram's acquired from Matsushita in 1995, produces and distributes motion pictures, TV series, home video products and recorded music.

Competition among foreign companies for involvement in China's heavily regulated entertainment industry is intense. Disney, MGM, News Corporation, Sony, Time Warner and Viacom are among groups jostling for market share.

INTERNATIONAL PRESS REVIEW

Dismantling of 'VIP culture', as The Nation sees it

Egalitarian dawn fails to inspire cynics

PAKISTAN

By Mark Nicholson

It was unprecedented, and *The News* caught it with a front page photo. Pakistan's prime minister took a seat in economy *class, rather than* the usual front row of first.

Did this gesture from Mr *Malik Maraj Khalid* herald a new egalitarian dawn for Pakistan? Does his interim government's dismantling of "VIP *culture*" *represent* the first broom stroke in the cleansing of Pakistan's corruption after last week's dissolution of Ms Benazir Bhutto's government?

Not according to Pakistan's *cynical* press. While The News on Saturday mutteringly commended Mr Khalid's gesture as "a record of sorts", *The Nation* was reminding its readers that they had seen it all before. Hadn't Gen Zia ul-Haq, Pakistan's last military dictator, once ostentatiously *abandoned his limousines* for a more "populist" bicycle only to give it up when he got bored? It will not *last*, said The Nation, and barely matters.

In fact Mr Khalid's economical flight to Lahore was about the sole instance of "sincerity" or "good faith" visible in the pages of Pakistan's press since Ms Bhutto's eviction by President Farooq Leghari. *Intrigue*, conspiracy and scepticism otherwise provided the roughage of the week's press diet.

This was mixed with weary comment on the predictability of *Ms Bhutto*'s ouster and deep suspicion that little real change lies ahead. "Benazir Bhutto had it coming," wrote the *Friday Times*. "She was an arrogant, reckless, capricious and corrupt ruler that surrounded herself with sycophants, lackeys and flunkeys and squandered a second opportunity to serve the people of Pakistan."

But if Ms Bhutto's removal came as no surprise, it offered some entertainment at least, according to a perky column in The News by Masud Akhtar Shaikh, a retired colonel. "For the public it provides a real thrill, breaking the monotony of the usual political chow consisting of the boring and repetitive statements of politicians."

However, there were also repeated warnings in the weekend papers that Mr Khalid's administration must not outlast its allotted 90 days and that fresh elections must follow on the prescribed date of February 3. "Any other course will invite the risks that Pakistan should not be tempted into taking," wrote *Dawn*. It was carefully ambiguous about what "Pakistan" in the sentence refers to, but perhaps kept in mind the rumble of army tanks.

The army's invisible hand was widely discerned as having acted against Ms Bhutto, and in some quarters the motives of Mr Leghari were suspected. *Mr Syed Nadeem* in The Nation informed front page readers that the president's intention appeared to be to remove Ms Bhutto from the leadership of the Pakistan People's party and *make it his own*. "By trying to eliminate Benazir politically and legally, he has already given the verdict of the next elections."

Mr Nadeem, and others, also wondered when general accusations of corruption and responsibility for extra-judicial killings in Karachi *might emerge as* defined legal suits against Ms Bhutto. Many felt Mr Leghari's *credibility, and indeed* legitimacy, would be at risk unless specific charges soon replaced general accusations.

Several commentators raised the risk to *Pakistani* democracy itself if the interim government lingers.

Not that the commentators seemed to have had much faith in Pakistani democracy in the first place. The News noted on Wednesday that nine of Pakistan's last 12 premiers had been *removed from* office.

So wherein lies the hope for Pakistan? Not, according to the *Pakistani* press anyway, in Mr Imran Khan, the former cricket captain turned politician. He may be much championed as Pakistan's great white-flannelled hope in the western press, but the launch of his new party's campaign occasioned little comment or coverage at home.

Without any "concrete economic, or political, or *international* agenda", wrote the Nation, "Imran and his people can only hope to win votes on the basis of their reputations as fresh people with fresh thinking." And few of Pakistan's world-weary hacks are likely to consider that enough.

FT guide to Pakistan's politics, Page 9

Investors look to Argentina again

By David Pilling in Buenos Aires

Argentina will attract $20bn in foreign direct investment between 1995 and the year 2000, with the US and Chile heading the list of investors, according to a report from the UN's Economic Commission for Latin America and the Caribbean.

The automobile industry accounts for nearly a quarter of realised or pledged investments, with food and tobacco, petrochemicals and construction attracting a further 40 per cent.

US companies will provide 35 per cent of FDI, with those from Chile accounting for 11 per cent, France for 8 per cent and Canada, Britain, Italy, Spain and the Low Countries around 5 per cent each.

Mr Alieto Guadagni, secretary of trade and industry, said FDI continued to grow rapidly last year despite the effects of the Mexican devaluation which saw much portfolio investment flee Argentina. In 1995 it attracted FDI of $3.9bn, $2.7bn more than in 1994.

Mr Guadagni, criticised by some local manufacturers for abandoning the government's role in fostering industry, said the figures proved the best way to promote productive investment was to offer economic and legal stability. These, plus access to the Brazilian market through the Mercosur customs union, explained Argentina's attraction for investors.

Most important among the yet-to-be-released study's findings, Mr Guadagni said, was that 67 per cent of foreign investors were newcomers to Argentina, attracted by economic reforms begun in 1991.

The minister admitted FDI would do little to tackle unemployment, now at 17 per cent. Foreign investors tended to use the latest technology and were not big employers, he said.

New chief of staff eyes budget fight

By Gerard Baker in Washington

At first sight, the choice of Mr Erskine Bowles as President Bill Clinton's new White House chief of staff looks an unusual one.

The president starts an uncertain second term facing a still Republican dominated Congress, and the smart money might have been on a more battle-hardened veteran of Washington's partisan politics to fill what will be perhaps the crucial position in the new administration.

The 50-year-old, slightly donnish North Carolina investment banker certainly lacks the lengthy political experience that was the hallmark of his predecessor, Mr Leon Panetta, a 16-year veteran of the US House of Representatives, former House budget committee chairman, and director of the Office of Management and Budget.

New White House chief of staff Erskine Bowles at a press conference after his nomination by President Clinton. He is an investment banker and former top White House official Reuter

Mr Bowles's sole departmental administration experience so far has been in the decidedly calmer waters of the US Small Business Administration.

Howver the new chief's credentials as a presidential insider could hardly be stronger. And he has critical experience at the highest level in one area that the president has already indicated will be his top priority in the next two years – budget negotiations.

For a year from late 1994 he was at Mr Panetta's side as a deputy chief of staff in the White House.

In the process he became one of the members of the inner team of presidential advisers that plotted the strategy for Mr Clinton's re-election.

He worked alongside Mr Dick Morris, a close adviser who resigned in August after revelations about an affair with a prostitute, Mr Harold Ickes, another deputy chief of staff, Mr George Stephanopoulos, a senior presidential adviser, and Mr Panetta himself.

Mr Bowles's influence is likely to be enhanced by the fact that all the others have either left office, or seem likely to leave soon.

He was a valuable lieutenant for Mr Panetta in last year's budget negotiations with the Republican Congress, a battle that marked the turning of the tide in the Democratic party's fortunes after its disastrous defeat in the mid-term elections in 1994.

He was influential in persuading the president to accept the principle of setting a target date for a balanced budget.

Mr Bowles's other main contribution was to co-ordinate the work of the White House and the campaign team.

He was charged with bringing order to the sometimes chaotic activities of the ideologically disparate members of the various teams.

Announcing his appointment on Friday, Mr Clinton said Mr Bowles had been responsible for "bringing focus and direction to our efforts," no small feat in the Clinton White House.

Mr Bowles, a southerner like his president, is firmly in the fiscally prudent, economically conservative wing of the Democratic party. He was a leading southern fund-raiser for the aspirant presidential candidate in 1992 and was rewarded with the top job at the Small Business Administration in March 1993.

In spite of a declared wish to return to his home and the private sector (he left the White House a year ago), he arrives instead in the unfamiliar glare of a front-line job. He will not have to wait long to have his mettle tested – his first job this week will be to take part in a first round of meetings with congressional leaders on ways to balance the budget.

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US, EU closer on telecoms and IT accord

By Nancy Dunne in Chicago

US and EU officials this weekend moved closer to deals liberalising telecommunications and information technology trade and vowed to reach agreement to ease costly regulatory barriers to exports of telecommunications products, pharmaceuticals and medical devices by January.

Pressed hard by a year-old coalition of almost 200 US and EU business leaders, officials found the flexibility to move forward on deals which had been bogged down at the bargaining tables in Brussels, Washington and Geneva.

While meeting business executives and government officials gathered in Chicago at the weekend, ministers said progress had been achieved in three areas:

■ The US and EU agreed to table improved offers for a multilateral deal on basic telecommunications services. Spain agreed to open its market completely in 1998 and the US added liberalisation of submarine cable services to its package, with the promise of adding satellite link liberalisation if "a critical mass" of other countries offered better deals.

■ Agreement was reached "in principle" on a mutual recognition agreement on pharmaceuticals to eliminate duplicative regulatory requirements. The two sides moved closer on a MRA for medical equipment. MRAs for telecommunications and pleasure boats have been virtually agreed. A deadline for agreement on all the MRAs was set for the end of January.

Face-to-face meetings of executives, regulators and officials have generated a sense of urgency

■ "Considerable progress" was made to conclude an information technology agreement (ITA) at the World Trade Organisation ministerial meeting in Singapore next month. Although the US is still trying to keep two products off the table which the EU wants – capacitors and television tubes – it was agreed tariffs on IT products covered by the deal should be removed by the second half of 1997.

In helping achieve the breakthrough on the pharmaceutical MRA, the EU industry accepted a proposal from the US Food and Drug Administration that the US regulator would rely on European inspection reports and vice versa, said Mr Sidney Taurel of Eli Lilly. "Each would have a right to get the reports from the inspectors and, if they get something wrong, on an exceptional basis, they have the right to go and check. But neither abdicates their approval authority."

Officials credited the Transatlantic Business Dialogue coalition for the progress on all three deals, saying face-to-face meetings between executives, regulators and officials had generated a sense of urgency.

The TABD was created by the same officials – and Mr Ron Brown, the late US commerce secretary – last year in Seville to help promote the transatlantic marketplace. The group said increasing speed of technological change and globalisation required ever swifter response by governments in order to raise business competitiveness.

Governments have sought to comply. According to Mr Mickey Kantor, US commerce secretary, about 60 per cent of the Seville recommendations had been agreed by Washington and EU governments and the TABD had become "the predominant business influence on the transatlantic marketplace".

Two days of intensive discussion between the business and government officials produced a "Chicago Declaration" with a wide range of proposals. It called on governments to work toward the principle that regulatory testing results, if "approved once, [be] accepted everywhere in the transatlantic marketplace".

Some regulatory requirements, in particular duplicative testing and certification procedures and widely divergent technical regulations and standards, were "no longer sustainable in terms of resources or results", it said.

It named new sectors for a phasing out of tariffs, including camera parts, medical devices and distilled spirits.

The declaration pushed for completion of a treaty harmonising patents and urged the EU and US to launch a joint effort at the Singapore meeting to accelerate implementation of intellectual property protection.

The TABD also urged withdrawal of extra-territorial provisions of US sanctions laws enacted in 1996, such as the Helms-Burton Cuba sanctions legislation.

However, it also called on business to promote democracy by conducting business "in accordance with internationally accepted principles and global best business practices, such as providing non-discriminatory employment and safe places of work."

Summit to condemn US law on Cuba

Leaders from Latin America, Spain and Portugal prepared yesterday to issue the region's first explicit condemnation of a controversial US law that seeks to punish Cuba, AFP reports from Santiago.

The 23 leaders at the sixth annual Ibero-American summit were to call on the US to "reconsider the application of [the] law, which goes against international principles," according to a draft of the summit's final declaration.

The formal declaration is due to be issued today. The so-called Helms-Burton law – which seeks to sanction non-US companies doing business using assets confiscated after the 1959 Cuban revolution – has hurt the pride and pocketbooks of Washington allies with investments in Cuba, including the European Union, Canada and Mexico. The Latin American nations are reluctantly defending Cuba, and are eager to prevent the US from determining foreign policy for the entire region.

Cuban president Fidel Castro was the first leader in Santiago to publicly attack the US, criticising "extra-territorial laws and criminal blockades by that same power that repeatedly has invaded countries of the region and intervened in the internal affairs of our countries".

Although the summit declaration is likely to give Havana a diplomatic boost in its battle with Washington, Cuba "did not come here necessarily to seek support in condemning the Helms-Burton law," said Mr Roberto Robaina, Cuban foreign minister.

However, Latin America is particularly sensitive to any unilateral punitive measures by the US.

"Beyond the government of Cuba, it is a question of principles," Mr César Gaviria, secretary-general of the Organisation of American States, told Telenoticias television.

Spanish freight company joins rail bid

By Charles Batchelor, Transport Correspondent

Freightliner, the management-owned freight company which moves containers between British ports and inland railheads, has teamed up with a Spanish freight operator, Transfesa, and "a major UK company" to bid for the international container business of the former state rail network, British Rail.

The Freightliner consortium and English Welsh and Scottish Railway, the former BR heavy freight division now owned by Wisconsin Central Transportation of the US, are expected to be the only companies to bid for Railfreight Distribution by the noon deadline today.

RfD, which is heavily loss-making, runs international freight services between the UK and Spain, France, Germany and Italy through the Channel tunnel linking Britain and mainland Europe. The government hopes to complete its sale early next year. The unnamed UK group is understood not to be either of the other UK companies – National Power, the privatised electricity generator or Tibbett & Britten, a distribution company – which were shortlisted several weeks ago.

Transfesa is one of the largest users of the Channel tunnel for container shipments, with more than 1,000 wagons shifting cars between Ford plants in Europe. It owns about 7,500 wagons making it one of the largest privately owned operators in Europe with a turnover of about £150m ($245m).

Half its shares are owned by the Fernandez family while the French and Spanish state railways, SNCF and Renfe, have minority holdings. Its shares are listed on the Madrid stock exchange.

RfD has recently been making a cash loss of £1m-a-week before interest charges, a figure almost equal to its turnover of £60m a year. It employs 1,500 people and operates about 160 freight trains through the Channel tunnel each week.

To help smooth a sale, BR wrote off the entire £500m value of RfD's assets and commitments in its 1995-96 annual accounts. This figure included £300m worth of investments in rolling stock, locomotives and terminals and £200m to cover the minimum charge for use of the Channel tunnel. This is £20m a year for the next 10 years.

Labour party aims to soothe worries on EU

By David Wighton in London and Stefan Wagstyl in Harrogate

CBI director-general Adair Turner shows his contribution to a charity auction of masks

Mr Gordon Brown, the opposition Labour party's chief finance spokesman, will today seek to reassure business about Labour's policy towards Europe by pledging to oppose any moves by Brussels to impose new regulations which place burdens on industry.

In a speech to the Confederation of British Industry's annual conference, Mr Brown will also commit Labour to veto any attempt to extend qualified majority voting within the Maastricht social chapter.

However, Mr Brown will risk a rough ride from delegates by reaffirming Labour's commitment to signing up to the social chapter. An opinion poll of CBI members released yesterday showed that 73 per cent wanted the UK to maintain its opt-out from the social chapter.

Mr Brown will be on stronger ground when he stresses that the UK must keep open the option of joining economic and monetary union in the first wave. The poll showed that companies remain broadly committed to the UK joining monetary union with a growing minority in favour of entry in the first wave.

The conclusion will disappoint those Eurosceptic MPs who have argued that business, especially small companies, is becoming increasingly hostile to monetary union. But it will cheer Europhile Tory MPs who want Britain to retain the option of joining.

Mr Brown will tell delegates: "It is time for us to start a genuine debate in Britain about Emu and the implications of any decision about when to join." He will warn that the UK cannot afford to indulge in an "endless debate about Conservative party ideology".

The comments will be seen as a warning to shadow cabinet members such as Mr Robin Cook who have dismissed the chances of the UK being among the first countries to join the single currency. The CBI poll showed about 28 per cent of respondents favouring Britain joining the leading group of countries planning to enter monetary union in 1999, compared with 19 per cent last year. Only 7 per cent rejected joining Emu.

Retailer backs ban on genetic soya

By Clay Harris in London

Iceland Group, the frozen food retailer, is supporting the campaign against the use of genetically modified soya beans. Mr Malcolm Walker, chairman and chief executive, said: "It's like Frankenstein's soya beans."

In a letter to Greenpeace, Iceland said it backed the environmental group's effort to ensure consumers could choose whether to buy or reject such modified foods. Iceland is the first UK food retailer to take such a strong public stance on genetically modified foods.

The beans have been developed in a 15-year programme by Monsanto, the US chemical and pharmaceutical company.

The government-sponsored Food Advisory Committee last week repeated its opposition to compulsory labelling but encouraged manufacturers "to provide information voluntarily about their products."

Mr Walker, a member of Greenpeace, said: "We've had hundreds of letters from customers asking what our position is. Most don't want food that has been mucked about with."

Last week US-owned Kraft Jacobs Suchard said it would refuse to use genetically modified soya in its products.

Business leaders deplore 'neglect' of London

By George Parker, Political Correspondent

London's future as one of the world's great cities has been blighted by an unsympathetic government, according to a critical report by the influential London Pride partnership.

Investment in the capital has been below that needed for a world city, says the partnership, which brings together business organisations, local government, police and voluntary organisations to consider economic action plans for London.

The report argues that London's transport system has been allowed to crumble and that beautiful parks and buildings are also neglected. "The commitment of national government to London should match the contribution of London to the nation," the report says.

A final draft of the report, *Making a Commitment to the Capital 1997-2002*, has been seen by the Financial Times. Final copies are expected to be sent to all three major political parties this month, in the hope that they will make policy commitments to London in their manifestos for the general election.

The report's critical conclusions will be embarrassing for Mr John Gummer, environment secretary, who has encouraged the partnership to come up with a strategic vision for the capital.

The report's biggest criticism of government policy is on transport. Ministers are accused of being "out of step by regularly choosing to postpone transport funding because of unrelated short-term considerations".

"If the government stopped placing unrealistic conditions on potential investors in the private finance initiative, it would find the private sector more involved," it adds.

London Pride calls for a campaign to raise the quality of life in the city, arguing that inward investors are attracted by open and peaceful communities, as well as stable and successful economies.

UK NEWS DIGEST

Irish deputy PM faces criticism

Mr David Trimble, leader of the Ulster Unionists, the largest pro-British party in Northern Ireland, yesterday launched an unprecedented personal attack on Mr Dick Spring, the deputy prime minister of the Irish Republic, accusing him of being "a jumped-up little man from Dublin", and describing his involvement in Northern Ireland's affairs as "an impudence".

The attack, during an interview on Sky television, follows Mr Spring's comments last week that Mr John Major, the British premier, is "big enough" to risk losing the support of Mr Trimble's party at Westminster to secure a solution in Northern Ireland.

"In effect he's saying that the largest party, the Ulster Unionist party, should be ignored," Mr Trimble said.

Dublin, along with the moderate nationalist Social Democratic and Labour party are pressing Mr Major to provide further reassurances about the direction of the Stormont talks in the hope that this will be enough to secure a renewed IRA cessation. Mr John Hume, the SDLP leader, speaking at his party's annual conference in Cookstown at the weekend said Mr Major could achieve "lasting peace" if only he would state "in the clearest possible terms the nature, objectives and timeframe of the talks".

John Murray Brown, Dublin

■ OFFSHORE REGISTRATION

Firms face obstacles over Jersey

Firms of professionals seeking to limit their legal liabilities have run into a further obstacle to their plans to register in Jersey under a new law designed to protect the personal assets of partners.

The Inland Revenue in Britain has said that firms which become limited liability partnerships under Jersey law may be taxed as if they were companies – possibly incurring higher tax liabilities than if they remained as UK partnerships. The move was widely seen as a signal that the government is prepared to make the off-shore option as unpalatable as possible – particularly for the big accountancy firms which helped to frame the new Jersey law.

Last week Mr Ian Lang, the trade and industry secretary, announced that the UK would next spring publish detailed plans for its own version of limited liability partnerships. However it was unclear when such a law could be enacted with a general election imminent. Jersey, largest of the Channel Islands between England and FRance, has Queen Elizabeth as head of state, but makes its own laws and raises its own taxes.

Jim Kelly

■ GOLDMAN SACHS

Trader's resignation link denied

Goldman Sachs, the US investment bank, has denied any link between the resignation last week of a senior bond trader in London, and rumours of irregular bidding and substantial losses during a gilt auction two weeks ago. "There is no connection between this resignation and recent events in the gilt market," Goldman said. The trader, Mr Andrew Duthie, was hired by the bank 2½ years ago from Salomon Brothers, when Goldman was building up its UK bond operation. His resignation was rumoured to be linked to losses allegedly sustained by Goldman when gilt prices fell sharply on October 24, wiping up to £8m off the £1.5bn bond auction held earlier that day. Goldman also categorically denied any irregularities in bidding during that auction.

Richard Adams

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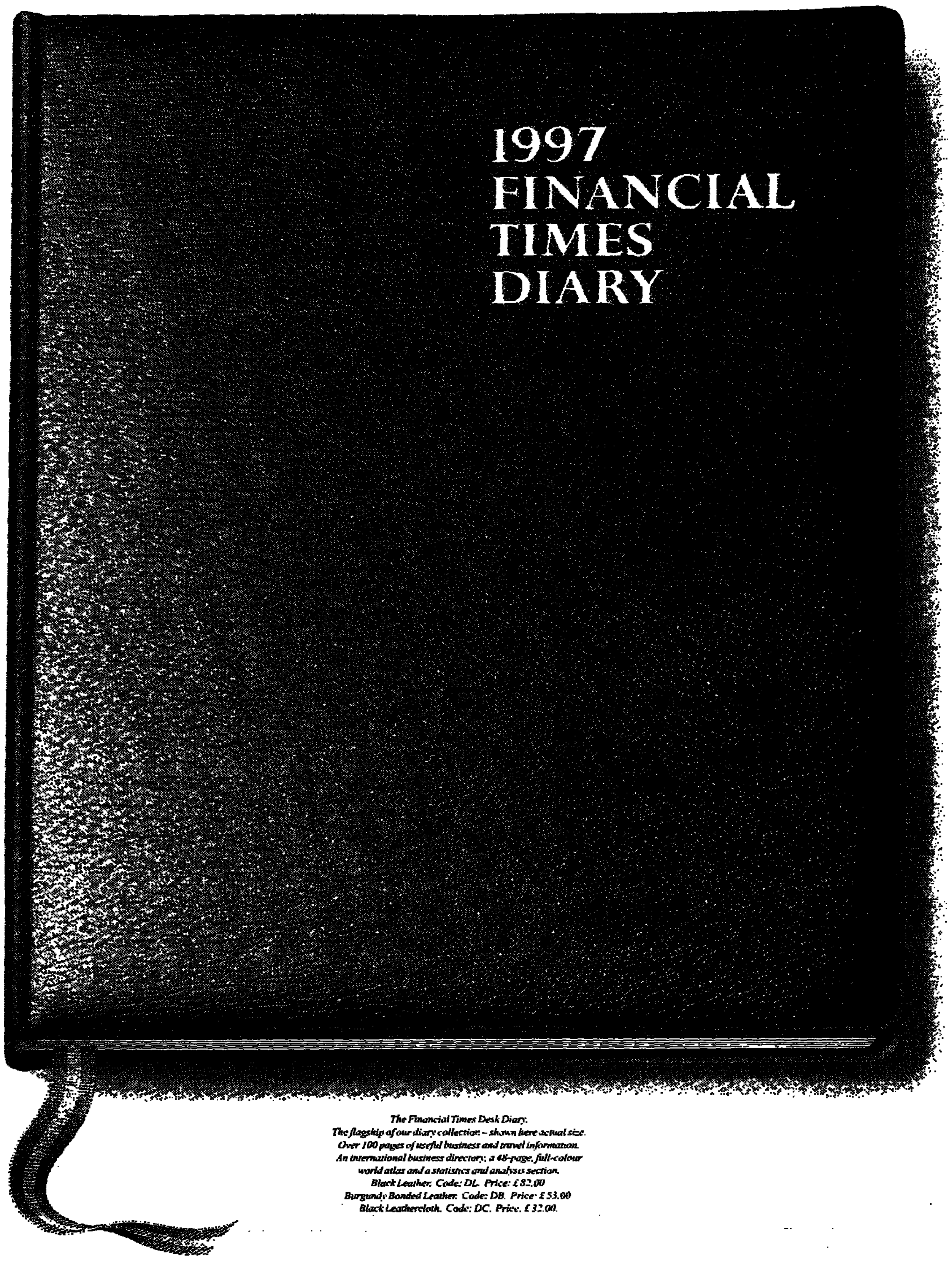

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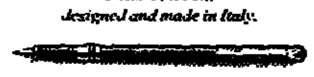

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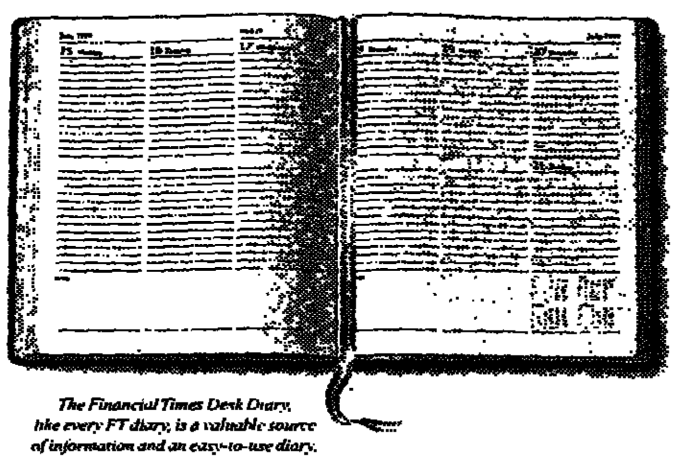

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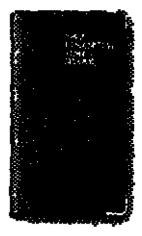

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THIS WEEK

Media-driven democracy on trial

When Bob Dole said in his concession speech on Tuesday night that he had many friends in the media there were some hollow laughs from the men and women with mikes and repetitive strain injury (inky fingers before the computer age) who were still awake after his unavailing 96-hour campaignathon. After all, the Republican candidate had spent much of it complaining that he was not getting a fair shake from the press – and from the New York Times in particular.

That is what the rest of the Republican party had been saying, too, with their incessant complaints about the "liberal media elite" rather than the people setting the agenda. Bill Clinton is not terribly fond of the fourth estate either these days, and with good reason. He has not been exactly inaccessible in pursuit of re-election, but Friday's formal press conference was the first since the journalistic equivalent of the 15th century.

Now, as a charter member of this so-called elite, whose coat of arms, when the honour comes, will portray a gatekeeper rampant with his foot on the neck of Newt Gingrich, your correspondent may be excused for a certain sense of "déjà vu all over again", as Yogi Berra – the baseball player and manager, not the cartoon character – was fond of saying.

It is, after all, 34 years since a politician who later became president said to the California press: "You won't have Richard Nixon to kick around any more." In his case, as with countless others, it was true that familiarity bred contempt or sometimes something worse – admiration. The lesson is that a little distance between politicians and those who cover them is desirable (the golf course excepted, please Mr President).

DATELINE

North Carolina: a liberal elite of communicators stands accused of having set the US presidential campaign agenda, writes Jurek Martin

The real generic trouble with American journalism is that it takes itself too seriously. But it can be downright dangerous when, rather than merely reporting and analysing what it sees and can discover, it sets itself up as an arbiter of the relationship between those seeking election and those who pull levers and press buttons in the voting booth.

That is what happened this year in North Carolina, when a doubtless high-minded experiment in what is grandiosely called "civic journalism" may have ended up a disservice to the good citizens of the Tarheel state (they do produce tobacco down there, but that is another story).

It was called, catchily, "Your Voice, Your Vote" and it worked like this. Six state newspapers and nine radio and TV stations commissioned an opinion poll to find out what was most on the mind of the citizenry. All statewide candidates – 13 in the primaries – were then invited to sit down to explain their views on the identified subjects, the first tier, unsurprisingly, consisting of crime and drugs, taxes and spending, affordable healthcare and education.

Of course it was the news organisations that compiled the poll's questions, which somewhat undermined its real probing of the North Carolinian mind. Nor did they play quite fair with the results. Families and values was actually rated fractionally higher than taxes and spending, but the unilateral decision was taken to put the latter in the first rank.

The first problem arose when Senator Jesse Helms, typically but hardly unexpectedly, refused to co-operate. Newspapers had designed attractive matrices in which candidate answers – in their own words, not filtered by a reporter – would be placed in boxes.

The Raleigh newspaper initially ran white spaces against the Helms column, but concluded, not unreasonably, that this was hardly helpful and began cobbling together answers from his known positions and occasional comments (Jesse always says of the state he has represented since 1972, "it knows what I stand for," and he is probably right).

What irked many local reporters, if less the editors with vested interests in the scheme, was that coverage of the Helms race against Harvey Gantt was essentially set in predetermined concrete. The relegation of families and values to the second tier of priorities probably robbed Gantt of a legitimate line of attack.

This lack of flexibility was evident in the lack of real follow-through to a story that a foundation set up by Helms had been well financed by foreign conservative interests. This came out at exactly the time that the national Democratic party was fending off all sorts of nasty questions about which Asian businessmen gave it how much money and for what purpose.

The writing stiffs also complained about the diversion of resources to the Your Voice, Your Vote project and away from the bread-and-butter job of actual campaign reporting. Final week rallies for both candidates were conspicuous for a low press turnout (presumably the rest were designing new matrices).

Pat Yack, editor of the Greensboro local paper in North Carolina, concedes ambivalence. It was, he says, "an attempt to move beyond electoral political rhetoric to ideas". But he allows that, "it is fair criticism that we're setting the agenda, not the politicians."

The bottom line is that it made no difference. Helms got 53 per cent of the vote, which is the exact average of his previous four victories. He did not like the press then either.

The Monday Profile: Jon Huntsman, Huntsman Corporation

Tycoon with a rare formula

Business dynasties do not come much bigger – or richer – than the one presided over by Jon Huntsman, chairman and owner of Huntsman Corporation, one of the world's biggest privately owned chemicals companies. But Huntsman, a staunch Mormon known for his philanthropy, is keen to refute any suggestion that his company's size has made him complacent.

He is anxious to double his company's $4.5bn (£2.76bn) a year sales by the turn of the century, helped by acquisitions and a $1bn-plus investment programme to expand output from his chemical plants in the US and Europe.

Huntsman, whose personal wealth is put at $1.5bn, relies more than most tycoons on help from his close relations. Of his nine children, Jon junior is vice chairman of the company, with other sons Peter and David chief operating officer and vice-president of the company's polymers group. Richard, a son-in-law, is chief financial officer. Huntsman, who is 59, has 31 grandchildren, some of whom are already being groomed to play an active part in the business next century.

Jon senior says he plans for the long term. "We are a stable business, and we're looking ahead in an expedient and efficient manner. We're not open to scrutiny in the way that a public company would be – it's good not to have to keep coming up with a new mousetrap every five minutes."

He wants during the next five years to ease himself out of the job of running the company, leaving this to his children. "We're a family-run business, gently re-aligning. It's a magical thing."

A strong Republican supporter, Huntsman is well connected on the US political circuit and is on good terms with Baroness Thatcher who stayed in his luxurious lodge near his company HQ in Salt Lake City earlier this year. One of his best memories is an audience with Pope John Paul II in the Vatican in 1992.

Huntsman combines the aura of the hard-nosed businessman with that of the soft-centred family man. He made headlines with his pledge a year ago with his wife Kathleen to give $100m over 10 years to set up a cancer research institute at the University of Utah, one of the biggest corporate gifts ever.

He started his company in 1982 following an earlier foray into making polystyrene containers for hamburgers. It has a reputation as a "bottom fisher".

By buying chemical plants for knock-down prices at the bottom of the industry's cycle, the company has accumulated a huge production base at a fraction of its replacement cost. It has also made profits from assets others had given up on. The two deals which catapulted the company into the big time came in 1993 when Huntsman virtually doubled its size through acquiring the expandable polystyrene business of Elf Atochem of France. At about the same time, it bought the downstream chemical operations of US oil giant Texaco, the latter decision as part of a joint venture with Australian media executive Kerry Packer.

Huntsman has a reputation as an aggressive stalker of companies. Some in the chemicals sector say they will no longer deal with him. He has not hidden his ambition to grow in Europe, where the company has only about a tenth of its sales. It is an open secret that he has knocked at BP's door to sound out its interest in selling some of its chemical assets, only to be rebuffed. There has been talk from people who know Huntsman of his view of Europeans as "cartel driven" and lacking interest in dealing with brash American outsiders.

In the US, Huntsman has been more successful in adding to his family empire, by means of two deals in the past two months. The company has spent an estimated $150m buying two US businesses: the polystyrene manufacturing interests of Amoco, another big US chemical company; and Massachusetts-based Deerfield Plastics, the US's largest independent maker of polyethylene film for packaging.

Huntsman's philanthropic outlook continues to attract attention. The Huntsman company last year gave away $28m to good causes, mainly to groups helping homeless people, medical research and education. Huntsman does not like to dwell on his policy of donations but says it is linked to his religion: "There is a keen sense of need around us and if there is something we can do we will do it."

He is not a soft touch, however. "We get an incredible number of requests for money and the areas we are attracted to are not necessarily the ones where people seek our attention." In some of the philanthropic gestures, there is a hint of Huntsman also weighing up the long-term business payoff. Huntsman has put $15m into a concrete fabrication facility in Armenia to help the country recover from the earthquake of the early 1990s. That may help his company gain a foothold in a promising market in an important part of the developing world.

Peter Marsh and Jenny Luesby

FT GUIDE TO

Pakistan's politics

Is Pakistan a democracy?
Absolutely, a Westminster-style one with a popularly elected lower house and a senate elected by members of four popularly elected provincial assemblies. But there is also a president, elected by the senate and the provincial assembly.

How come its president, Farooq Leghari, has managed to dissolve the elected government of Benazir Bhutto two years before her term ends?
Because General Zia ul-Haq, Pakistan's last military dictator, craftily inserted an amendment into the constitution – in case of emergencies – in 1984 permitting the president to turf out governments deemed to be harming the national interest.

So, was Benazir's government harming the national interest?
President Leghari thought so; he accused it of mismanaging the economy, of committing widespread extra-judicial killings in Karachi, allowing corruption to run amok. And he listed other crimes, including wire-tappings. There was also the small matter of the army, which had lost patience with the Bhutto government and gave Mr Leghari the nod.

So the army is the real power in the land?
Yes, but you won't catch politicians saying so in public. Consider the fact that 26 per cent of government spending goes on the army and that this will not be touched at all under a drastic IMF-led austerity programme designed to put the economy in order, and you start to get the picture.

Does this mean Benazir is finished?
Not quite, she's a tough fighter and says she'll challenge the dissolution in the courts. There are precedents for a successful appeal. Four elected regimes have been given the presidential boot since 1985. Two have won court appeals for reinstatement. If that fails, Benazir has the option of trying to rally her Pakistan People's party followers in a mass popular campaign.

So, if the new interim government doesn't ban her from politics, could she win elections, now set for February 3?
It looks unlikely. Pakistanis seem to have grown disillusioned with her government. They blame it for steep price rises and associate it with corruption. If Nawaz Sharif, Pakistan's main opposition leader, is also not barred from politics in a possible presidential purge, his strong support base in Punjab, Pakistan's most powerful state, might see him clear to victory.

But will the election be held on February 3?
Pakistanis are highly sceptical. For one thing, the polling date falls during the Moslem fasting month of Ramadan, which would provide a practical impediment. For another, if anyone were to file a petition to the Supreme Court arguing that elections cannot be held without a fresh census, – the last one was in 1981 – that would hold things up considerably. The constitution formally requires there to have been a recent census before general elections.

Would a census make any difference?
It certainly would. The demographics of Pakistan have changed considerably since the last one, particularly in the rising proportion of people now living in urban areas. The present pattern of constituencies skews parliament towards an over-representation of rural areas – giving a stranglehold to the two entrenched political parties and their land-owning leaders.

Why is that?
Because Pakistan's political class comprises largely rich, agriculturally based landlords, popularly known as "feudals". About 60 per cent of the present parliament, across both main parties, comprises such feudals. Their hegemony is assured under the present system – something which has stood in the way of proper taxation of agriculture in Pakistan and thus places a heavy tax burden on the urban population and business. Industrialists say this cripples efforts to create a competitive, exporting manufacturing industry.

Any signs of a power shift in Pakistani politics?
Maybe. Sharif, the first non-feudal prime minister, from a rich industrial family, who ruled from 1990 to 1993, damaged the myth that only a rich landowner could take Pakistan's highest office. But a country with a 75 per cent illiteracy rate may take years to change its ways. Feudal politicians have coined a new phrase, "industrial robber barons", to describe such political upstarts. They describe Sharif as the ultimate example. His government was also sacked on corruption charges.

What about Imran Khan, the popular and glamorous former cricket captain. Isn't he breaking the mould of politics?
Not yet. His party is far too small and too poorly financed to make much of a dent, although his attacks on corruption are popular.

So who was the last Pakistani prime minister actually to serve out a full term?
Zulfikar Ali Bhutto, Benazir's father, who led the country through a full five-year term. He was re-elected in 1977 but arrested in a military coup and, on a controversial murder charge, hanged two years later. Not a propitious precedent.

Mark Nicholson and Farhan Bokhari

Robert Chote · Economics Notebook

Avoiding the taxation nettle

Tax decisions, like interest rates, require a long-term horizon

In last week's Inflation Report, the Bank of England's policy advice was clear in parts and opaque in others. It declared that interest rates should rise in coming months, but then mumbled unspecifically about the need for "an appropriate fiscal policy" in the Budget later this month.

The combination of forthrightness and equivocation is not the fault of the Bank. In the arrangements set up after sterling's unceremonious expulsion from the European exchange rate mechanism in 1992, the government charged the Bank to give it public advice on base rates and private advice on fiscal policy. Any substantive references to fiscal policy in the monthly monetary meetings between Kenneth Clarke, the chancellor, and Eddie George, the governor of the Bank, are airbrushed out of the published minutes.

More is the pity. In common with the overrated fashion for giving central banks independent control over interest rates, this arrangement has meant that the importance of co-ordinating monetary and fiscal policy is dangerously underplayed.

The logic behind treating interest rate and budgetary policy differently in this respect is not clear. The case for both central bank independence and the UK's current monetary arrangements – in which the Bank influences interest rate decisions through moral suasion – rests on a curiously inconsistent view of the frailties of politicians.

The implicit assumption is that finance ministers are short-termist rogues who cannot be relied upon to raise interest rates, because this means paying an upfront political cost for economic benefits that accrue only slowly over time. That may be true. But, if so, why do we leave politicians in charge of so many other policy decisions?

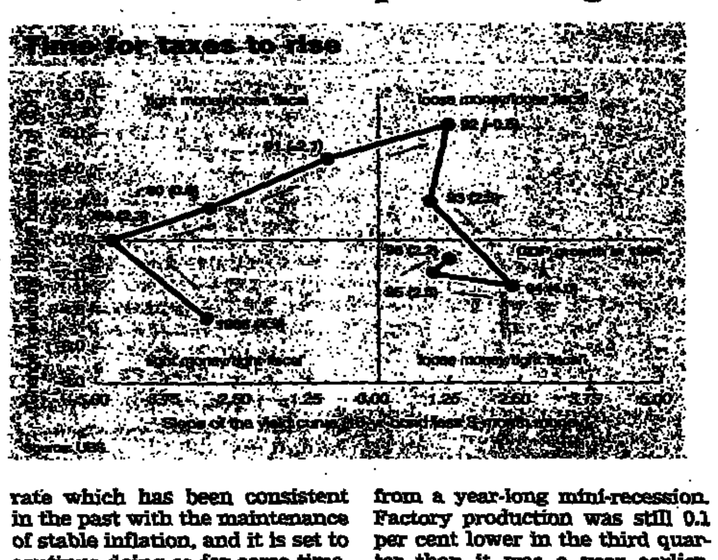
Alan Blinder, former vice-chairman of the US Federal Reserve, pointed out recently that decisions on the structure of the tax code require a long-term horizon just as much as interest rate setting.

"There is a constant temptation – which needs to be resisted – to reach for short-term gains that may have negative long-run consequences," he cautioned. "And tax policy decisions are probably even more susceptible to interest-group politics than monetary policy decisions."

And yet no one argues that an independent budgetary authority should tell the government how much it needs to raise from taxes once it has decided what to spend on public services. Yet the balance between taxation and spending can have just as much influence on the level of demand in the economy – and thereby on the extent of inflationary pressure – as the decisions on rates which politicians supposedly cannot be trusted to make.

Some economists would argue that it is better to have one weapon used responsibly than neither. But having different authorities aiming different weapons at different targets can create serious tensions.

This danger is evident in the UK now. The economy as a whole is growing at above the



rate which has been consistent in the past with the maintenance of stable inflation, and it is set to continue doing so for some time. Underlying inflation has also failed to subside during the recent period of below-trend growth, which suggests there is little spare capacity left to be used up before inflationary bottlenecks become more serious.

But some parts of the economy are nearer full capacity than others. Output in the service sector grew by 3.3 per cent in the year to the third quarter. And, as the Bank noted in the Inflation Report, spending on services seems to be pushing up prices in areas such as catering, transport and insurance.

Surveys of service sector companies meanwhile show that recruitment difficulties are starting to emerge.

Manufacturers, in contrast, are only just beginning to emerge from a year-long mini-recession. Factory production was still 0.1 per cent lower in the third quarter than it was a year earlier, while manufacturing investment has fallen sharply since the big increase it recorded in late 1995.

The contrast between manufacturing and services mirrors what the Bank described as "the emerging imbalance between domestic demand and net exports".

That imbalance is expected to get worse, with rapidly rising house prices signalling a further acceleration in consumer spending, and cuts in government borrowing casting a shadow over European export markets. Sterling's 8 per cent rise since August is making life even more difficult for exporters, more of whom are in manufacturing than the service sector.

That suggests higher taxes would be preferable to higher interest rates. The evidence of the last three years suggests clearly that higher taxes would help restrain consumer spending, while keeping interest rates low would help exporters and encourage a revival in manufacturing investment.

Samuel Brittan argued in the FT last week that it is difficult to manage demand with fiscal policy because it operates with long time lags and is uncertain in its effects. True enough, but the same applies to interest rates. Such evidence as we have suggests that a one-point rise in base rates has the the same impact on economic activity after two years as a 2p rise in the basic rate of income tax. Given the importance of boosting the economy's capacity, it is also worth noting that interest rate increases are twice as effective in discouraging investment as in discouraging consumption.

Fiscal policy should certainly not be used for fine tuning: there is much to be said for the dictum that policymakers should not change tax rates in one year if they expect to reverse the move in the next. But with tax revenues still mysteriously weak and the government running a bigger budget deficit than it should be with the economy this close to full capacity, there is a strong case anyway for increasing taxes to put the public finances on a more sustainable path.

Needless to say, this is not going to happen in this month's Budget. But if Labour wins the election, do not be surprised if it grasps the nettle within weeks of coming to power.

The seriously funny airline

Southwest's wacky style has become a model for management gurus, says Richard Tomkins

You want to fly from Dallas to Houston: so you telephone Southwest Airlines, the Texas-based company that pioneered low-cost air travel, and join the queue for a reservations agent. After a while, you hear a recorded announcement.

"If you have been on hold for more than five minutes, push 8," it says. So you push 8, and the voice comes back again. "This didn't speed your call, but don't you feel better? You can push 8 as often as you like until an operator is free to take your call."

Eventually, you get your ticket. A few days later, you are on Southwest Airlines flight 280 from Dallas to Houston. As the aircraft touches down, the public address system crackles into life and you await a routine announcement. Instead, to the tune of the theme song from the 1960s television series, The Beverly Hillbillies, flight attendant Holly Becker sings: "On behalf of Southwest Airlines, Captain Jed and all the crew, We would like to thank you folks for kindly dropping through. You're all invited back next week to this locality to have a heaping helping of our hospitality."

Then, spoken in a broad, southern drawl: "Southwest-style, that is: fast planes, strong drink, and goooooooood-lookin' women." The passengers roar with laughter.

Welcome to Southwest Airlines, the seriously funny company. Here, life is a hoot. Sometimes, flight attendants play tricks on passengers by hiding in the overhead luggage bins, and the safety instructions are usually an excuse for a comic turn. ("Those of you who wish to smoke will please file out to our lounge on the wing, where you can enjoy our feature movie presentation, Gone With The Wind.")

It's the same at the Dallas headquarters. Everyone, including the boss, wears casual clothes. Practical jokes and wisecracks are not just tolerated: they are encouraged. Celebrations and awards break up the routine, and the walls are festooned with rib-tickling pictures of employees in fancy dress.

Perhaps more than any other large company in the world, Southwest has taken to extremes the notion that work can be fun. But the serious side to the business is that it is also highly successful. Southwest's low fares and relentless expansion have transformed the US air travel industry. Alone among US airlines, Southwest has made a profit every year for the past 23 years: last year, it made net profits of $183m (£111.6m) on revenues of $2.8bn. It has never had a crash.

Increasingly, Southwest has become a model for management gurus who argue that fun can be a big contributor to profitability. If people are enjoying their jobs, the theory goes, they are likely to perform them better. And this seems to apply at Southwest, which pays good wages but keeps fares low by achieving extraordinarily high levels of productivity from its employees.

Indeed, the atmosphere at Southwest often seems more akin to that of a religious sect than a business. Employees seem to be almost fanatically committed. "I love coming to work every day," says Irene Schoenberg, a customer service supervisor at Dallas Love Field airport. "It's the lively atmosphere, the flexibility they allow us, and the fun we have. There are lots of parties, celebrations, and rewards for working here. What we give the company, I think they definitely give us back."

Piloting the fun: executives at Southwest Airlines get into the spirit of things

How does a company achieve such high levels of commitment? It helps if you have a boss like Herbert Kelleher – or Herb, as he is always known. Herb sets the tone for Southwest with his remorseless enthusiasm for jokes, pranks, laughter and warmth.

Herb traces the spirit of Southwest Airlines back to the company's origins 25 years ago, when it was a small, entrepreneurial outfit pitted against the might of the big US airlines. He says all organisations that have managed to bring off something spectacular have had an us-against-them mentality. "I guess another way to put it is that to bring out your best efforts, you need to have an enemy."

From the start, Southwest used wackiness to attract attention to itself. Catering for a predominantly male, Texan clientele, it launched itself with a "love" theme under the slogan "Somebody else up there loves you." Its air hostesses wore hot pants and white PVC go-go boots; drinks were Love Potions, peanuts were Love Bites, and tickets came from Love Machines.

Today, Southwest's stockmarket ticker is still LUV. But adjusting to a more politically correct era, the company has dropped the "love" campaign in favour of a mission to deliver "positively outrageous service" at unbelievably low fares.

Oddly, Southwest believes the best way of achieving this objective is to say that customers come second. The company's top priority is treating its own employees well, out of a firm belief that if its people are happy, everything else will fall into place.

"The fun is not just the practical jokes: it's the recognition, it's treating people right on a daily basis," says Gary Kelly, chief financial officer. "Every company I have ever gone in, they say people are number one, but they're just not. They don't live up to that, and we do."

A lot of the feelgood effect is achieved through simple gestures. Even though Southwest has grown to 23,700 employees, everyone gets a birthday card from Herb and Colleen Barrett, the company's second highest-ranking executive. There are cards, too, when people get married or have babies, and promotions are marked with a bottle of champagne.

Effort is recognised through countless awards and celebrations, ranging from formal employee-of-the-year awards to daily acts of recognition for good service. Informal rewards include gifts of candy or ice-cream, an hour off work, an impromptu party, or – very highly valued in the US – a parking space close to the office.

At another level, Southwest has long believed in trusting employees to exercise their own judgment rather than tying them down with rules. "People are very, very gifted," Herb says. "They can do a whole lot of things. And if you give them the opportunity to expand beyond the horizons that the organisation tries to define for them, you will be amazed at what they can produce."

Herb says fun has never been a deliberate policy at Southwest: rather, it comes from an atmosphere in which employees are encouraged to think for themselves, and are liberated with respect to their emotions. It is not all laughter, either: there is crying, too. Colleen Barrett says: "You couldn't exist in this environment if you never wanted people to give you a hug."

Such sentimentality may sound too cloying for some tastes, and Herb acknowledges it is not for every employer. "I think in some cases, companies feel that the burden is too heavy, dealing with every employee essentially as an individual when you have many thousands of them."

So how does Southwest manage it? Much of the credit is due to Colleen Barrett, officially corporate secretary but known internally as the keeper of the company's culture. She has created a culture committee to perpetuate the Southwest spirit, made up of more than 100 employees from all parts of the company.

They meet in their own time to exchange ideas, and they convey the company's philosophy and values to their co-workers, often far removed from head office.

Another key element in preserving the culture is recruiting the right people. "We couldn't have the atmosphere that we have without having the people that function well in this kind of atmosphere," says Libby Sartain, vice-president for people. "So the whole recruitment process is designed to get at more than just the skills and background of the person: to get at what their attitude is."

Southwest seeks out people who show an ability to work well with others, a positive attitude, a good sense of humour and a commitment to service. The company can afford to be selective because so many people want to work there: last year it received 124,000 applicants for 5,473 jobs.

But Herb says Southwest's image can be a problem if applicants think working for the airline will be just one long laugh. "We tell them the good news is that you will work your ass off." he says. "The bad news is that you will work your ass off."

[illegible]

PARTNERS

Speciality Shops

[illegible] founded Speciality Shops in 1985. [illegible]

Stephen: "The idea for Speciality Shops came to us on holiday [illegible]

"We came back to the UK and [illegible] rather than development, so we bought existing centres rather than [illegible].

"I look after operations; David is more involved with the corporate side, talking to banks and shareholders. He's slower on computers than I am and his maths could be better. If I do calculations I come up with a hundred different permutations, whereas he'll say: 'It's worth 8 per cent, isn't it?'

"We don't have too many disagreements. We sometimes disagree on direction and on staffing levels which is quite healthy. I always want more people, whereas he thinks it's advantageous to have a well-trimmed staff.

"One of our strengths as a company is that we try to make the staff feel they are part of a big family. David's great at motivating the staff. He has an air of authority about him which instils confidence in everyone. [illegible]

"We share a big round desk so we know what the other's doing. It saves having to have formal meetings, but means we have to look at each other all day."

David: "I knew Stephen had mathematical aptitude but one of the great surprises was discovering his flair for design. When we had the company logo designed we were given a choice of black and white, or colour. He immediately picked the colour one, which wouldn't have been my choice.

"He's slightly more showy than me and more dramatic in his dress. I'm always in a suit whereas he'll wear casual clothes to the office. He's got a tremendous puckish sense of humour which he brings into the centres.

"The object of shopping centres is to keep people in them longer. The longer they stay the more they spend, so we're constantly looking for new entertainment, anything from jugglers to having an on-site cinema.

"Stephen will come up with the slightly mad ideas. He put some rather daring sculptures into the Waverley centre which created a lot of interest.

"Not every idea is successful. We once put some very loud music in the Corn Exchange in Leeds and were inundated with complaints.

"I'm possibly more political than him, he's more open-hearted and more hands-on. He's a great communicator and is married to the mobile phone, whereas I'm more taciturn. I deal more with company strategy so I prefer to sit quietly.

"I think there's a competitive edge to both of us. We play tennis once a week, which is a great release and gives us a chance not to think about anything else.

"The only thing that irritates me about him is his prodigious memory, particularly for technical facts and the matches he's won."

Fiona Lafferty

Execs groomed for life at the very top

Lucy Kellaway

Has anyone else noticed a subtle change in the hairstyle of Sir Peter Bonfield, chief executive of British Telecommunications? In the old days at ICL he used to sport an impressive bouffant. Pictured last week shaking hands with his new colleagues at MCI his hair was as perfectly groomed and blow-dried as ever, but seemed a bit flatter.

This would be of little import were it not for last week's revelation about Tony Blair's hair, which proved beyond a doubt that British women do not trust a man with too big a bouffant.

Bonfield is not alone among UK captains of industry in recognising that hair can get too big. John Browne, chief executive of BP, appears to have lowered his a fraction. In both cases the men have risen to greater heights, and as they have gone up, so their hair has come down.

The only head of a FTSE-100 company with serious hair these days (if one excludes Marjorie Scardino, the incoming chief exec of Pearson) is Ian Strachan at BTR. Him apart, contemporary corporate hair falls into five categories:

● The Balding Look. This is still the most popular style among chairmen and chief executives, although it is becoming less so as executives get younger.

A sub-group in this category is Bald Head With Compensating Beard – favoured by alternative figures such as Sir Clive Sinclair and Chris Wright of Chrysalis.

● The Brylcreem Look. The slicked-back and greased-down style is becoming less fashionable, though still to be seen on the heads of Rupert Murdoch and Sir Iain Vallance, as well as the older generation in the City.

● The Blow Dry. This style is gaining popularity among the generation of younger chief executives. Michael Green, Sir Clive Thompson, Greg Hutchings and Bob Ayling all favour this look. Richard Branson carries the look to extremes and appears blow-dried even when half-way up a mountain.

● Hair Dye, Toupees, and Other Artifices. These are not popular among the corporate elite, although the FT's brewing correspondent tells me that hair dye is used by at least one prominent figure in his industry.

● The Unkempt Look. This is my favourite look as it comes most naturally to the average British man. Examples of it can be seen on Andrew Teare, Garry Robinson and Richard Lapthorne. Some might say that Sir John Harvey-Jones has taken this look a bit far.

However, Tony Blair would do well to look up a survey done a few years ago that named the lanky-haired ex-head of ICI as one of the most trusted people in the country.

Over the weekend I did 24 hours of childminding, two hours of gardening, three hours of cooking, shopping and laundry. This is neither boast nor complaint, but information for the Office for National Statistics.

Last week the government announced that it is going to start collecting just this sort of data as a first step towards "satellite" accounts which will put a value on unpaid work. One justification for the exercise is that it is supposed to make women at home feel better about what they do. However, what we domestic drudges mostly want is help, and failing that, thanks from those around us. The idea that a statistician may be keeping tabs on the tedious hours and minutes spent loading the washing machine, alas, does nothing for me.

Who are going to be the management gurus of the next millennium? Given the average quality of those in the current one it is hard to believe that the year 2000 will bring anything worse.

However, the up-and-coming gurus picked out by Human Resources magazine suggest just that. One name to watch is a youth called Bruce Tulgan, who has just written a book called *Managing Generation X*.

He believes that there is some special knack to managing people born between 1963 and 1981. A typical insight is that "Cookies + pizza + exercise = an investment in Xers' productivity".

But when one cuts through the racy, pacy style, it turns out that what Xers want is recognition, to be motivated, to do interesting work – in short, just the sorts of things that anyone born since the year dot wants too.

Marks and Spencer has just put out the following press release: *Dear Editor. Due to unforeseen circumstances the Wrought Iron Reindeer Candlestick, item no. 9018, will not now be available at any Marks & Spencer stores. We apologise for any inconvenience this may cause. Yours sincerely, etc.*

The mind boggles.

BUSINESS EDUCATION

Clean trade

Bubble bath queen Anita Roddick, founder of the Body Shop retail chain, is the moving force behind a master of science degree in responsibility and business practice to start in March.

The course, offered by Bath University in conjunction with Roddick's New Academy for Business, is a two-year part-time programme designed for managers from both commercial and non-profit organisations.

"Participants ... will be able to contribute to moving their organisations towards a more values-aware orientation," says Judi Marshall of the School of Management at Bath.

The programme is designed for students from both the UK and overseas. It will be based on four five-day workshops each year, each focusing on one aspect of ethical management. In between, participants will practice the techniques in their work environment.

DB

Business school staff have to perform for their money, says **Della Bradshaw**

Remuneration remedy

Business schools are under constant pressure to introduce at home the techniques they recommend to corporate clients. At the top of the list is performance-related pay.

The issue is a particularly thorny one for most business schools because their salary structure is closely tied to academic salaries in their university. Independent schools, such as London Business School in the UK, have fewer problems in introducing innovative employment packages.

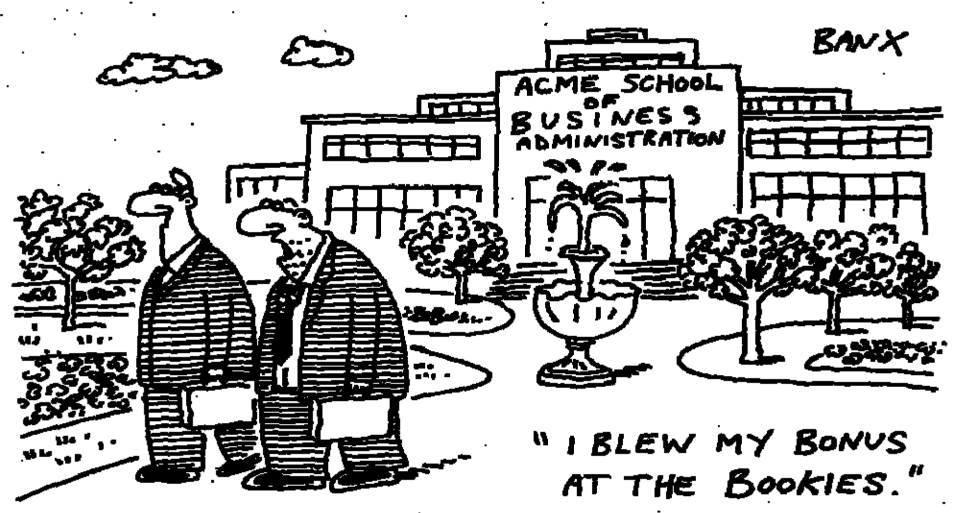
Faculty at the school are all on contract – none have tenure – and it has had performance-related pay since 1990. Faculty are individually assessed in five areas: teaching, research, good citizenship, external visibility and academic administration.

At the Indiana University School of Business in the US it took a personal crusade by dean John Rau, when he took up his position four years ago, to introduce performance-related pay. But it was not without the support of the 150 faculty. "When I first got here I asked the faculty what were the principal issues facing all of them and they said the compensation scheme didn't reinforce what we needed to do strategically," says Rau.

Now each academic has to please six constituencies in order to get a high personal ranking. But the scheme does not stop there.

The personal score is combined with scores from other individuals in each of the seven departments to give a departmental score on which a departmental salary increase is calculated.

The six constituencies are the directors of the undergraduate, postgraduate and doctorate programmes, the placement office, executive education department and the dean himself, who awards scores on the basis of attitude and personal development. The dean's score carries twice the weight of the others.



The changes reflect the shift in emphasis at the school, away from inward-looking research to outward-looking corporate work, acknowledges Rau, and away from exponents of a single skill to a more rounded academic. "I tell them that instead of being the best piccolo player they have to be the best orchestra conductor."

The plan also acknowledges the fact that different academics have different strengths and creates a sense of diversity. "The good faculty are not all going to look the same," says Rau.

At Manchester Business School in the UK, dean John Arnold is treading a similar, though less ambitious, path. Arnold has developed a systematic way of rewarding academic staff based on the quantity and the quality of work in teaching, research and administration.

Each academic is given points and any that significantly over-perform on their target get a one-off bonus. When the scheme goes into full operation on August 1 next year, Arnold believes that between 2 per cent and 5 per cent of the salary pool will be allocated in this way.

Although some staff are suspicious, Arnold believes many will welcome the transparency. Initially the scheme will reflect the way that the school operates, but Arnold recognises, like Rau, that the scheme could be used to engineer the direction of the school. "It becomes part of our longer-term strategic planning. We can award extra points in areas we want to develop."

NEWS FROM CAMPUS

A good judge of executive courses

The Judge Institute at Cambridge University will be offering shorter executive courses within the year, initially targeting board members and those one rung below on the management ladder. The first courses will be either open courses or consortium ones – where individuals from a specified number of companies will be eligible to join.

The Institute is also investigating doing company specific courses. These would present the core of the MBA programme to MBA quality people.

Judge: UK, (0)1223 339700

How not to waste billions on training

Businesses worldwide spend more than \$100bn (£64bn) annually on training their employees. But more than half of that is money wasted, according to the authors of a new book which looks at the mechanisms for devising the best training strategy.

"Much of the training is done with no objective purpose in mind, so they can't evaluate the investment," says Albert Vicere, associate dean for executive education at the Smeal College of Business Administration at Pennsylvania State University and co-author of *Crafting Competitiveness; Developing Leaders in the Shadow Pyramid*, published in the UK by Capstone, priced £18.99.

Vicere believes it is not the wrong people making the decisions but that they are not clearly focused on the objectives of the organisation.

Capstone: UK, (0)1865 798623

Alumni committee gets first woman

Iese in Barcelona has appointed Dorothee Harsch as the first woman to its Member's Association standing committee.

Harsch is also the first non-Spaniard – she is German – to be appointed to such a post in the alumni association.

An employee of BASF in Spain, Harsch will help promote Iese executive courses to overseas alumni.

Iese: Spain, 3 204 4000

Patrick Harverson · Sport

Drive for a mass TV audience


Tough-minded and telegenic: the new England captain Philip de Glanville

It makes a nice change to see rugby union in the news for all the right reasons.

The appointment last week of a new England captain in Bath centre Philip de Glanville and the selection of a squad for the team's first international of the season allowed us to forget temporarily the ongoing and bloody battle between the Rugby Football Union and the top English clubs for control of the game.

The tough-minded but telegenic de Glanville is just the right sort of person to help steer rugby union through the first years of the professional era, while the new squad for the Italy fixture later this month suggests England is ready fully to embrace the attacking game employed so effectively by New Zealand and Australia.

However, it is at club level that rugby faces its biggest predicament, and I am not talking about the long search for a solution to the bitter dispute between the RFU and the English Professional Rugby Union Clubs (EPRUC).

Despite recent setbacks, the owners and the administrators of the game will almost certainly eventually settle their differences about how to share out the television money and operate the league and cup competitions. At the very least, it cannot be long before Rupert Murdoch, the media mogul whose millions are bankrolling the newly professional sport, knocks heads together to force a resolution.

No, there is a more profound problem facing club rugby, and at its root lies – surprise, surprise – television. Ask yourself this: Can club rugby lay the foundations for long-term prosperity as a professional sport if in its formative years it is broadcast to a minority audience on satellite television?

It is a predicament that, because of the large amounts of money flowing into the game from television, few have been willing to confront. BSkyB, the satellite broadcaster, has offered to pay £87.5m ($142m) for English international and club rugby during the next five years. It is an enormous sum for a sport that until last year was almost entirely amateur.

Yet, in rushing to embrace BSkyB, club rugby has overlooked the fact that to develop a public following large enough to sustain its professional status over the long term it needs to display its wares in front of the widest possible television audience.

This is something that BSkyB, for all of its undoubted production abilities and marketing skills, cannot yet deliver.

Just assume for a moment that club rugby was starting from scratch and money was not an issue. Which broadcasting outlet do you think it would choose to sell itself to the nation? A terrestrial broadcaster which reaches 21m homes in Britain, or a satellite broadcaster with 5.7m subscribers?

Several years ago rugby chose the latter, negotiating a £4.5m three-year deal with BSkyB to show live games on Saturdays. At the time, the BBC and ITV could not or did not want to match that offer.

Yet club rugby on Sky Sports has not proved a great success. Sky claims that Courage league club rugby games on Sky Sports drew an average audience of about 200,000 last season. That seems a reasonable enough total for an amateur sport that rarely attracts crowds much larger than 4,000 or 5,000 to its tiny and run-down stadiums.

However, now that club rugby is professional, and having to foot wage bills that reach £1m or more per squad, it will have to do much better than that.

The game's optimists believe the improved, higher-scoring version of rugby union that we have seen on the sports fields of England this season will help the sport build bigger audiences.

But club rugby, as a product relatively new to television – until two years ago it had never been regularly broadcast live on television – needs to win over as many fans as quickly as possible.

Now, if the BBC or ITV was showing live club rugby, the sport would be able to draw on a much larger pool of potential viewers. At the moment, club rugby is watched on average by 3.5 per cent of Sky subscribers. If 3.5 per cent of the 21m households with terrestrial television were to tune in, that would represent almost 735,000 viewers, more than three and half times what Sky currently delivers.

Moreover, club rugby on terrestrial television would draw even bigger audiences because games could be shown on Sunday afternoons, when rugby fans are far more likely to be watching. Currently, Sky broadcasts club rugby on Saturday afternoons, a time when sports fans are unlikely to be settling down in front of the television set.

On Sunday afternoons – the time slot that draws the big audiences – the satellite channel is devoted primarily to covering football. Yet a top club rugby game shown live on BBC on a Sunday afternoon could conceivably draw an audience of 1m or more. I know I would happily watch it, as would most of the long-suffering but loyal viewers of Rugby Special.

Admittedly Sky, with the approaching arrival of digital television, might be able to build up its subscriber base substantially, but club rugby cannot afford to wait too long to establish itself in the nation's sporting hearts.

So, why did club rugby throw in its lot with Sky when the time came to negotiate a new contract? Well, there was the money of course. But in truth, it had little choice. Sky is stumping up millions for international rugby, the glamour game which draws the big audiences. Club rugby came with the package. The clubs could not have negotiated their own television deal because, as three years ago, no other broadcaster seemed willing to buy the product.

Yet, given club rugby's need to build a large audience, is it not possible for the sport's administrators to negotiate parallel television deals with more than one broadcaster that would give club rugby access to a lot more than a quarter of Britain's homes? After all, football manages it quite happily with its separate Sky, BBC and ITV deals.

Perhaps when the RFU and EPRUC have settled their differences and the dust has settled, they might think again. Otherwise, club rugby – a rapidly improving and exciting sporting spectacle judging by some of this season's best games – will spend the first five years of its life as a professional sport badly underselling itself.

Colin Amery · Architecture

Talented line-up for architecture's Booker

They call it the architects' Booker prize. As Germaine Greer rather sourly remarked after this year's Booker dinner: "It's the publishers who decide which author will win, not the readers." The £20,000 Stirling prize for architecture is similarly awarded by the profession, through the Royal Institute of British Architects, to one of its own members. The general public hardly gets a look in.

Despite the incestuous quality of the Stirling prize, named after the late James Stirling (architect of the Turner Wing at London's Tate Gallery), the publication of its shortlist allows a review of the state of architecture in the UK. The six shortlisted schemes this year are a promising indication of rising design standards and the arrival of excellent, younger architects.

Richard Murphy has converted a small mews stable into a modern house in Edinburgh. It is a tiny project that contains within it the seeds of a talent that will do well on a larger scale. The mews house was originally built in 1820 and its character as a stable with large opening doors and smaller rooms above has been respected. The architect has not done what is so often perpetrated in a mews where all the functional aspects of the buildings disappear as they are turned into rows of tiny cottages. Murphy has put a new building inside the old and they coexist perfectly. The clients for this surprisingly light and spacious house are the Danish consul and his wife.

The other outstanding building on the shortlist is the indoor cricket school for the Marylebone Cricket Club in London. It has a remarkable amount of glass for a building devoted to a ball game, but it is a long time since I have seen such a light and elegant structure – evidence of David Morely's training under Sir Norman Foster. The arched roof has glazed barrel vaults with fabric louvres beneath, which give the place a wonderfully calm light.

At the University of Salford Hodder Associates have built the Centenary Building for some 400 students of architecture, design, and graphic studies. Built around a tall, narrow internal street, the teaching and staff rooms are reached by galleries and bridges. Throughout the building muted colours give an air of distinction. It is the most distinguished new element on the campus.

The educational sector has gone on building throughout the recession. At Emmanuel College, Cambridge, the Queen's Building designed by Sir Michael Hopkins is described by the jury as a very big budget extension to the college, providing public rooms and space for performances. It is a solid limestone building with a fine timber roof over the main auditorium. Like all of Hopkins's work this is finely detailed, expensive and elegant with a quality of timelessness.

The two other shortlisted schemes are also possible winners. The restoration and adaptation of the listed 1933 Boots factory in Nottingham by AMEC Design and Management is outstanding.

The new headquarters for Procter & Gamble in Surrey is an excellent example of commercial architecture. The design by Aukett Associates focuses on an inevitable atrium, but in a way beautifully related to the landscape.

The results of the Stirling prize contest will not be announced until November 21. It is to be hoped that it will encourage either a new, younger talent or a commercial practice raising the standards of everyday architecture.

CONTRACTS & TENDERS

Tim Jackson

The trouble with telecom megamergers

When investment bankers and company chairmen start talking about "megamergers", wise investors should hold tightly to their wallets. That is the conclusion I draw from observing the maturing of the BT-MCI merger.

While most of the industry's commentators have predicted that the acquisition by Britain's dominant phone company of America's second-largest long-distance carrier will provoke further concentration, there has been remarkably little hard analysis of the business logic.

Yet past waves of mergers have come and gone, lining the pockets of the shareholders of acquired companies but leaving little in the way of synergies for the buyers. The last round of mergers comparable to the changes now afoot in telecoms was the move by Japan's consumer electronics companies into the "software" of the entertainment business. Look where that ended up: both Matsushita and Sony were taken to the cleaners in Hollywood.

There ought to be two arguments for merging the operations of BT and MCI. One is that Concert, the new combined company, will have lower costs than the two companies would have had separately. The other is that it will have higher revenues.

Look first at the cost side. BT has claimed that the combined entity will save money with common software development and shared purchasing starting at \$500m (£307m) a year, and lower capital expenditure totalling \$1.5bn over five years.

I do not believe these economies will materialise. Both companies are already large enough to exact favourable trading terms from companies they do business with; and the UK and US markets are already sufficiently different, and the costs of changing legacy systems sufficiently high, to make it unlikely that the same programs will run on computers on both sides of the Atlantic.

There is every reason to believe that two separate cost bases will grow separately for some time. Spaces have apparently been found in the combined hierarchy for almost all the highest paid people in the two firms (the savings will come from the engine-room).

The co-chairmanship principle will require the company to spend \$1m a year flying half its board across the Atlantic by Concorde every month.

The risk is that the merger might be on the Japanese banking model, where the culture and hostilities of two separate organisations have persisted for years or even decades after they were supposedly merged.

What about revenues? The buzzword of the moment is "one-stop shopping": the idea that giant multinationals prefer to have a single company managing their global networks instead of 27 different companies and 27 different invoices. Unfortunately, this process is zero-sum – it does no more than redistribute sales from one company to another, and may have the effect of reducing total sales because the new single facilities manager is required to deliver the global service for much less than the previous cost of fragmented dealing.

There is a more important worry, too: most customers are not multinationals. The big growth in telecommunications sales is more likely to come from small and medium-sized businesses and for them a phone company that seems to be hungry and local is more attractive than one that is global and powerful.

The biggest opportunity of all is in the residential market, where telephones and the last mile of copper wire lie unused for 23¾ hours a day. You do not need to be a global giant to find ways to utilise that capacity better.

Why should BT have been willing to pay twice its own PE ratio for MCI? Two good reasons. One is that incumbents – and MCI is an incumbent, no matter what Sir Peter Bonfield may say about market entrants – have a big advantage in offering new services. The best example is AT&T's Internet business, which has picked up 500,000 customers in half a year without trying.

Although the European Union and everyone else are talking about market opening, the reality is that nobody is likely to lose money betting against swift telecoms deregulation outside the Anglo-Saxon world.

Why else would BT be interested in allying itself with NTT, which combines extremely high prices with overstaffing that would make an Indian railway blush? The other good reason for the deal is the hope that MCI's culture gives BT a useful kick up the backside. BT has improved a lot in the past 10 years. It is ahead of its European competitors – particularly the lumbering Mercury Communications in the UK, and the heavily geared monopolists of France and Germany.

But MCI, known by insiders as "More Change Imminent", is faster. Sir Peter Bonfield has already experienced the phenomenon of a smaller company energising a slower-moving parent. At ICL, acquired by Fujitsu, he presided over a period in which the British subsidiary effected a reverse takeover of the Japanese parent in managerial terms.

But the worry for BT's shareholders, of whom I am still one, is that the cultural transfer might be in the wrong direction.

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Computer, read my lips

Bill Gates tells Paul Taylor that machines will start to learn their users' needs

Six years ago when Bill Gates, Microsoft's chairman and chief executive, used the phrase "information at your fingertips", the fastest modem communications devices were running at 9,600bps (bits per second), fax machines were sweeping the world and the computer industry was still arguing about whether the Windows graphical user interface would catch on.

The fingertips concept, which boils down to making information easily available to personal computer users "anytime, anywhere", seemed a distant dream then. But as Gates notes, the rapid acceptance of Internet technologies inside and outside organisations has transformed the outlook.

"Companies want to empower their knowledge workers with information to make decisions," says Gates, who was visiting Britain last week to share his vision of the future with schoolchildren, politicians and business leaders. "It is the lifeblood of a company. Think of something like a bank – what else is it besides information? So the term "information at your fingertips" takes as its ultimate goal anybody having access to the information they want, when they want."

That involves creating "hot-links" between multimedia documents and making navigation much easier. "The Internet has brought in some major elements sooner that might be expected," says Gates.

He points to the importance of the widespread adoption by companies of common Net technologies such as the TCP/IP networking protocol, along with the use of Net-style addresses (URLs) and Web page hotlinks to replace file lists.

"Navigation has to be a lot easier than it is today. Today we have such a variety of ways that we navigate. We navigate mail. We navigate file systems. We navigate help systems. We navigate pages. And we navigate documents. All of those are fairly different right now, and we've got to bring those together."

Future versions of Microsoft's computer operating systems will integrate the traditional hierarchical shell (the front-end of an operating system) and browser. In an ideal world Gates believes it should not matter to the PC user whether information is stored locally on a hard disk, across a corporate intranet or the wider Net.

Gates says the next generation of software will incorporate filtering techniques which will help PC users sift through information, for example prioritising e-mail, and automatically adapting to the users' previous behaviour.

He thinks computer systems should "understand how we work and learn in an implicit fashion". Instead of being an essentially fixed and isolated system, he thinks PC software should adapt to individual users' needs and requirements, learning automatically from the way people actually interact with a PC.

The concept of a PC that learns has been talked about as "softer software". "Software's great, because it's easy to change, but it would be even better if there was dynamic change simply based on a usage profile, much like working with a human assistant," he says.

Microsoft's "Active Desktop" initiative, which has been developed during the past 12 months, is built around the idea that computer systems should be proactive and not simply respond to user requests. "The world has always been split between push, where things come to your mail in-box, and pull, where you have to go out and browse.

"What we'd really like to have is you setting up a profile and having the system automatically learn what information you want brought to you based on your use patterns." For example, if someone requests information about restaurants, the system should be smart enough to deliver information about local restaurants which serve the type of food the user prefers.

Gates believes smarter software, combined with a new type of Windows-based hardware device dubbed the "NetPC", will help address the issue of the total cost of ownership. That has been seized upon by Microsoft's arch-rivals, Sun Microsystems and Oracle, as justification for so-called "thin-clients" or network computers – low cost computing devices which would rely much more heavily on network bandwidth and powerful centralised servers.

"Companies want zero-cost administration," acknowledges Gates. Microsoft's solution is to team up with Intel, the chip maker, to deliver a "self-healing" hardware/software package. That means that if there is a problem with a machine, it should be smart enough to automatically request the latest software driver, retrieve an update across the network or share a screen with somebody who is doing remote support.

However, Gates believes the biggest missing element in the drive for simpler, more powerful computing is the lack of a more natural interface – and speech recognition in particular. For this reason he says much of Microsoft's \$2bn (£1.2bn) annual research budget is being spent on attempts to develop such systems.

"I'm personally quite optimistic that, certainly within the next decade, we will have that kind of natural interaction," he says. Perhaps then, instead of fingertips, we should focus on lips.

Jukebox Web sites may play death march for megastores

Victoria Griffith finds the record industry in a state of flux

Cybersurfers may get an inkling of the vast changes in store for the music business by tuning into the launch of an experimental Microsoft page called Riff (sic) on November 15.

The channel will feature jazz star Herbie Hancock in one of the first truly interactive music experiences. Hancock has made a recording listeners can manipulate. By clicking on different areas of a visual display, surfers can get the music to switch gears. Sometimes the piece will offer different Hancock improvisations of the same tune; other times a computer programme will take over, providing pre-programmed harmonisations.

"Music may never be the same again, and certainly the music business won't," says Ty Roberts, chief executive officer of Ion, a music technology company.

Cybersurfers have seen change afoot in the recording industry for some time. At "jukebox" Web sites, listeners can download snippets of music they may be interested in buying. Artists chat with fans and even perform concerts over the Net. Pop star Eric Johnson offered a guitar lesson over the Net. In late September, David Bowie released the single Telling Lies exclusively over the Net in the US, and visitors to his site can now download three different versions of the song. Record companies predict that by the end of next year, "enhanced CDs" – audio CDs with special interactive video – will be available in music stores.

Some compare the transformation with the impact MTV had on rock and roll in the 1980s. "Video killed the radio star," says Albhy Galuten, vice president of interactive programming at MCA, quoting a popular song. "Madonna may not have made it big without music video; on MTV, she thrived. Others didn't do as well." Cyberspace will be exploited by some artists more effectively than others. Ironically, the improvisations of jazz, ill suited to video, appear well adapted to the multi-faceted Net.

The interactivity of cyberspace seems likely to alter the relationship between fans and artists. "Right now there's this big cushion between the two, made up of record companies and record stores," says Jon Diamond, vice chairman of N2K Inc, a group that runs innovative music Web sites. "That will fade away."

Fans are already giving artists much swifter feedback. By the "hits" on the various versions of Telling Lies, for instance, Bowie may be able to draw conclusions about the most popular recording of the song. "In the future, we'll use that sort of information to decide what should be released in the stores," says Elizabeth Heller, senior vice president of new media for Capitol Records.

"I'm not saying record stores will disappear overnight, but the era of the megastore is over," says Diamond. "Once the quality and speed issues are taken care of, music buyers will be very keen on the convenience of buying CDs over the Net."

The technical challenges are considerable. Audio takes too long to download – often five minutes or more for a 15-second excerpt – and the quality is poor. Piracy concerns are acute and unlicensed recordings may well be a problem.

Yet within the next few years, people in the industry insist, many of these concerns will be addressed. Greater bandwidth and personal computer capacity will soon enable fans to download music albums within minutes. Cerberius, a UK-based Web site, has come up with pay-per-play at 50 pence for each piece heard on the Net.

Diamond foresees a more creative music market, with alternative bands able to sell their recordings directly to listeners.

Others question how buyers will find their way through the maze of recordings. The answer may be Web sites that vet music for fans. Another source of tips may be the artists themselves. Some of N2K's most popular Web sites list the five favourite albums of stars David Bowie and the artist once known as Prince.

Another solution would be for the computer to classify music lovers' tastes, placing them in a music "club" of like-minded fans who could pursue each other's recommendations. The Net company Firefly, for instance, already provides such a service.

Few in the record industry doubt that the business is in metamorphosis. Record companies may not die out, but will take on a new role. Fans will have more say in the final product, and recording artists themselves will have a new medium to work with.

As Bob Dylan would say, or rather, sing: "The times, they are a-changin'."

Cyber sightings

● Everything you might wish to know about the Italian Stock Exchange is at their new dual-language site (*www.borsaitalia.it*) which features a tour of the institution's activities and regulatory structure, together with market data, capitalisation figures and information on Italian listed companies. Nicely designed and very user-friendly.

● Project Connect is backed by leading players in the computer hardware and communications industry to extend use of the Net to Britain's primary and secondary schools. The organisation has completed a pilot project at seven schools around the country and aims to have 300 connected by September next year.

Its Charter for Education in the Information Age calls for co-operation between industry, government and education in order to bring about minimum standards of IT literacy for school leavers.

Details are at *www.rudex2.com/project-connect.html*

● The Washington-based magazine Economic Reform Today (*www.cipe.org/ert.html*) is a joint venture between the US Information Agency and the Center for International Private Enterprise, an affiliate of the US Chamber of Commerce. The magazine's site has all its issues online and is available in several translations. Very efficiently done and a good resource, particularly if you're interested in emerging markets.

● Anyone working in the convention or conference-planning area might appreciate the new ESP-Databank service (*www.esp-events.com*), which offers a searchable diary of European events, destinations, venues and hotels, run by the London-based Event Services Partnership. Registration is required and it is Frames-based, but worth keeping an eye on.

● Access ITS (*www.itsa.org*) is a service provided by the US public/private partnership for Intelligent Transportation Systems.

A lot of interesting information, news, events calendar and contact information; as well as a members' area.

● John Greiner's Investment Brokerages Guide (*www.cs.cmu.edu/~jdg/invest_brokers*) is a well-organised alphabetical listing of links to brokerage firms.

Good for the US and Canada, it's a bit patchy on Europe but has helpful links to other sources.

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Financial Times on the World Wide Web
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BUSINESS TRAVEL

Travel News · Roger Bray

The wish list

Live news, weather forecasts and sports coverage are the main things business travellers want from in-flight entertainment. A survey from the International Air Transport Association found they were cited by 45 per cent, 40 per cent and 35 per cent respectively.

Stock exchange information can wait – it is a priority for only a quarter of flying executives. Thirty per cent want live radio on aircraft. But movies and video games come some way behind, with just over 20 per cent saying they were their top choice. Only 10 per cent said they were interested in gambling.

Legroom and seat comfort are the reasons why more than 80 per cent of passengers flew business class.

Asian hotels feast

Tasty hotel bargains could be on the way in Jakarta, Kuala Lumpur, and the Indonesian oil-refining port of Surabaya. New development will see room supply exceeding demand there by up to 300 per cent, says Horwath International, the hotels consultancy.

No such luck in India, however, where hotels in business destinations continue to enjoy boom conditions.

Pressure on accommodation has been heaviest in Delhi and Bombay, where four-star and five-star properties have been operating 80 per cent full on average.

Plans take off

Persistent complaints about Istanbul's international air terminal have prompted the go-ahead for a new airport at Kartal.

Travellers using the city's main Ataturk airport have long grumbled about overcrowding and often desperately slow passport checks, which have been delaying some flights.

Initially the new airport will relieve pressure by handling domestic flights. Meanwhile plans are in hand to expand Ataturk, and foreign airline representatives are pressing for better links with the city.

On the line

The Japanese city of Kyoto, where a Victorian lady traveller once observed that "the streets are almost as clean as the floors", is to get a new underground line.

Opening in November next year, the Tozai line will start from Nijo station and run east to Sanjo Keihan before turning south to terminate at Daigo.

And next summer should see the completion of an extension of the Karasuma line, allowing trains to run to and from the city's Takargaike conference hall.

Olympic hurdles

Corfu's gleaming new conference centre, delightfully located in the grounds of a monastery, is close to completion – but there are a couple of hurdles still to be overcome.

Local sources say the developers, headed by the island's Greek Orthodox bishop, need to persuade the Athens government to stump up more funds. And they argue that, to make it worthwhile, Olympic Airways needs to be cajoled into operating direct flights.

Although a centre at Corfu Town's Old Fortress was used for the 1993 EU summit, the new development is claimed to be the first in Greece to promise true international standards.

Built at a total cost of some £5.5m, it overlooks the town about 1.5km from the airport. Its main auditorium will seat 800 delegates.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thu	Fri
Tokyo	[illegible]	[illegible]	19	14	[illegible]
Hong Kong	29	31	31	28	26
London	[illegible]	8	7	8	[illegible]
Frankfurt	11	9	7	7	6
New York	[illegible]	6	5	6	[illegible]
L. Angeles	27	24	23	26	[illegible]
Milan	[illegible]	11	14	15	[illegible]
Paris	10	10	7	9	7
Zurich	[illegible]	8	9	10	[illegible]

Amon Cohen on moves to introduce more transparency into deals between partner airlines

Cracking the code

Good news for European business travellers confused by the black airline art of code-sharing. Following two parallel investigations, Europe's airlines will have to be much more transparent about precisely who operates flights shared by two carriers.

Code-sharing is a process whereby one airline quotes a flight number for a service operated by a partner carrier, which also quotes its own flight number. Depending on which airline they call for their ticket, unwary passengers may think they are travelling with carrier A when in fact it is code-sharing carrier B that is actually operating the flight.

Confusion arises most often on journeys involving two flights, where passengers sometimes do not realise that the second leg of the trip involves switching to a (sometimes inferior) partner carrier.

In some cases, says Mike Platt, director of commercial affairs for business travel agency Hogg Robinson, passengers have thought they were travelling direct to a destination only to find themselves routed via an airport some way off the most direct route.

The European Civil Aviation Conference, the Paris-based collective body for Europe's national civil aviation authorities, has now acted to safeguard passengers against misleading information. It has adopted a list of recommendations, the principle one being that carriers should make passengers fully aware before they book of the existence of a code-share. This should include naming the operator of each segment of a journey. The group also wants code-share information to be printed on air tickets.

Other parts of the travel industry have also been instructed to improve clarity. Travel agents glean their flight data from computer reservations system displays and these in particular need to be made far more comprehensible. "Code-share information on [computerised systems] is like the small print on contracts: you literally have to look that hard to find it," says Mike Platt. "We make sure that our staff do look but a lot of agents don't. Any attempt to clarify information is welcome – we want to get it out of fine print and into block capitals."

Jorn Eriksen, commercial senior vice-president for Danish carrier Maersk Air, says his airline is considering making its code-share arrangements more obvious in its timetables. Maersk operates flights from Billund in Denmark to Amsterdam and Brussels which are code-shared with KLM and Sabena respectively.

But the recommendations he particularly welcomes are on establishing which airline is responsible for problems such as complaints, missed connections and mislaid baggage, or even more seriously, for dealing with the aftermath of a crash. "The legal aspects are unclear and I think they must be clarified," says Mr Eriksen.

One British airline is sceptical about whether the recommendations really will change computer reservation systems' displays, which are blamed for most of the muddiness over code-sharing. "While everyone gives the idea full-hearted support, it does require considerable sums of money to change displays," says one executive at the airline. The European group has no statutory powers, so compliance with its recommendations are voluntary.

Nevertheless, its member authorities are empowered to regulate and if Europe's airlines have not reformed themselves on code-share issues by June, they will be asked to enforce the recommendations. Gerry Lumsden of the European group believes that force will not be necessary. "We don't normally adopt resolutions if we don't think they will be honoured in member countries." Implementation of the recommendations will be watched closely by Brussels, where the transport directorate of the European Commission spent the summer contemplating a report it had commissioned on code-sharing.

The report, prepared by the consultancy Stratagem Amsterdam, arrived at very similar conclusions about misrepresentation to consumers. However, instead of drafting legislation, the Commission is relying on group's recommendations to improve transparency of code-share arrangements, says Ludolf van Hasselt, air policy division principal officer. "We don't want to interfere with that process," he says.

The report also concludes that many of the outstanding information problems can be cleared up when the Commission reviews its code of conduct on computerised reservation systems next year. Unlike the European group, the report for the Commission also considered whether code-sharing distorts competition, giving an unfair advantage to airlines which indulge in the practice.

The conclusion was that such agreements do potentially limit competition and should be reviewed on a case-by-case basis. Furthermore, code-sharing at congested airports needs to be monitored because it can create barriers for potential new entrants.

In spite of these generally hostile conclusions, it is not yet clear whether the Commission will curb code-sharing. "It still has to be decided whether we should put forward proposals. We are currently short of staff," says van Hasselt. "These issues will slowly start to filter through rather than appear in one piece of legislation. For instance, our proposals on slot allocations at airports [which are expected within the next month] will contain something on code-sharing."

It is an odd thought, but it would appear that the future of code-sharing by airlines in Europe depends on whether Brussels is able to recruit more staff.

When the going gets tougher

Ticketless travel, immigration staffed by robots which recognise you from your palm print, pilots guided by satellites rather than by ground-based air traffic controllers.

All this new technology, all these innovations to make life easier for air travellers, all these potential computer crashes. Can you imagine the chaos when the automatic check-in computer goes down and airlines have long since got rid of their counter staff? Or when a satellite malfunctions and ground control no longer have enough people to cope?

Last week's vision of the future was provided by British Airways, whose state-of-the-art laser luggage scanner broke down, leading to thousands of passengers flying from Heathrow airport without their suitcases.

The more advanced technology becomes in the airline industry, the worse things seem to get. It is not just that the machines occasionally break down: it is also because the growth in the number of travellers and flights outstrips the advance of technology.

The Air Transport Action Group, a coalition of travel organisations, says that delays at European airports have grown this year and will increase further in 1997.

In the first six months of 1996, about 14 per cent of all flights in Europe were delayed. This compares with 9 per cent in the same period last year. In the 12 months to June 1996, 14 per cent of flights were delayed, compared with 10 per cent in the previous 12 months.

The main reason for the delay was the growth in air traffic, but industrial relations problems played a part. One qualified success has been the new Europe-wide Central Flow Management Unit, set up to improve flight co-ordination.

While the unit has not been able to stop the number of delays from rising, it has been able to distribute them more evenly. More people are delayed, but they are delayed for a little less time. The average delay in the first six months of 1996 was 16 minutes. Last year it was 17 minutes.

Michael Skapinker

ARTS

OPENINGS

MUNICH Britain's art of the 20th century occupies the Haus der Kunst over the next two months. An extensive survey of avant-garde art during the First World War, featuring work by Percy Wyndham Lewis (below), Jacob Epstein and others, goes on show on Friday. It accompanies a Francis Bacon retrospective which opened at the beginning of the month.

MANCHESTER The City Art Galleries have organised the first major exhibition of David Hockney's paintings since the Tate retrospective in 1988. Concentrating on Hockney's output of the past 12 years, it illustrates his growing preoccupation with subverting traditional forms of representation. The show opens at the Princess Street gallery on Sunday.

NEW YORK Nikolaus Harnoncourt (below, left) makes his Carnegie Hall debut on Saturday conducting the Chamber Orchestra of Europe in the first of five concerts devoted to Beethoven's symphonies. Sankai Juku, the stylised butoh dance company from Japan, is visiting the Brooklyn Academy of Music with its latest piece, *Yuragi*. There are four performances, starting tomorrow. The Kander and Ebb musical *Chicago* returns to Broadway this week in a new production directed by Walter Bobbie and choreographed by Ann Reinking. First night is on Thursday at Richard Rodgers Theatre.

LONDON Lynn Redgrave (right) brings to London the show she devised herself to great acclaim in New York: *Shakespeare for my Father*. Opening night is Wednesday at the Haymarket Theatre.

PARIS The second production in the Châtelet's Stravinsky festival is Oedipus Rex starring Philip Langridge. Christoph von Dohnányi (above) conducts the Philharmonia Orchestra in a staging by Bob Wilson. There are six staged performances in Paris starting tomorrow, followed by a concert performance in London's Royal Festival Hall on November 26. The production can also be seen next month at the Zurich Opera House.

Just ordinary human dilemmas

Nigel Andrews talks to Hong Kong film-maker Yim Ho

Yim Ho: 'This anxiety is not something out of a movie. It's real'

For anyone compiling a "top 10" of imaginary foreign movies designed to empty cinemas, a Chinese film about tofu-making would surely head the chart.

Happily there is more to Yim Ho's psychological melodrama *The Day The Sun Turned Cold* (opening in Britain on November 15) than the country where it was made or its heroine's steamy kitchenwork. Yim hails from Hong Kong, though he made this prize-winning film across the border, as more and more of his cost-conscious and no doubt 1997-conscious compatriots are now doing. And tofu has as much importance in the tale of murder and unhinged minds as castle maintenance does in *Hamlet*.

The peasant woman suspected of poisoning her husband and pursued by an avenging son, in a movie that shuttles electrifyingly between past and present, could be an Emile Zola heroine re-imagined by Roeg or Scorsese.

"It's based on newspaper reports I read of a real case in China," says Yim. "What intrigued me was that none of the people was good or bad. They were ordinary people like you or me." The film could have been a tunnel-visioned tabloid shocker. But Yim says, "My ideal of film touches on human nature and not just one area. It could have been written from one perspective, jealousy or sexual desire. But it's really about the human dilemma and about all emotions or obsessions that drive people to extremes."

Yim himself has hardly done things by halves. He went from Hong Kong to the London Film School, then back to a top TV-producing career at home before directing his first feature in 1980. His most recent film *The Sun Has Ears* – "I don't have a thing about the sun," he insists – won the best director prize at this year's Berlin film festival.

The movie that Britain is about to see – number one *Sun* – is so visceral in its unpeeling of emotions, and its depiction of the practicalities of murder, that Yim must have had trouble slipping it past the censors? "In Hong Kong there is no censorship, except for a rule about not damaging relations with neighbouring countries. If you film in China as we did, you have to submit your script. They tried to enforce changes, but I said I didn't want to make them and they let it go."

In any case, says Yim, some of China's censorship laws are now becoming more honoured in the breach. "A Mainland star made a film recently which featured a full frontal female nude shot. It was shown in Hong Kong, then allowed to be released in China. For the first time a billion Chinese people could see a woman without her clothes on!"

For years until recently, *I say*, almost every Hong Kong film-maker good or bad was dragooned into the *kung fu* genre. Has the colony's most famous brand product now reached expiry date?

"Kung fu films no longer dominate the industry. People got bored seeing the same movies over and over. Also *Americans*, with bigger budgets, started to do those things better than us. If you see a film like *Desperado* it is just like a Hong Kong martial arts movie: very over-the-top, at times deliberately comical. We used to take elements from Hollywood cinema and exaggerate them. Now Hollywood is doing it to us!"

Also, says Yim, the Hong Kong audience has become better-educated. "And there is a new generation of film-makers, more conscious of trends in other parts of the world." But what a time, I put it to him, for young film-makers to feel tempted to spread their artistic wings. In only seven months, those wings may be clipped again by Beijing. "Most Hong Kong people are very uneasy. This anxiety is not something out of a movie. It's real. We shall be living it for the rest of our lives and our children's lives.

"The Chinese government say they will issue passports, allowing travel. But will they go on issuing them if people leave and don't come back? Hong Kong people love to travel. Will someone one day say, 'Sorry, you cannot go'? Then we will have to get passports in the traditional Chinese way: approval from your work unit, then from the provincial government, then from Beijing. There are unimaginable obstacles."

To balance things out, Yim has a few tart words about his current rulers. "There is resentment against the British and the way they have behaved. On the one hand they try to be friendly and helpful and to shame mainland China by saying 'We are so human and democratic, we make life easier.' Of course China does nothing to make life easy. In practical terms, though, Britain does nothing. It has simply walked away."

What of Yim and his fellow film-makers – will they, more legitimately, walk away before next year's midsummer curfew? Or will they, in the oriental tradition, wait and see?

Yim pauses for what seems a minute before deciding on the most discreet reply. "I don't know – but it is always good to have a 'fire escape.'"

Saleroom/**Antony Thorncroft**

Silver that survived

This is the week when the richest collectors of art and antiques in the world gather in New York to indulge in ostentatious consumption. Whether bidding in person or through dealers from among the packed, black-tied throng at the evening auctions at Sotheby's or Christie's, or, more usually now, by telephone from one of the discreet boxes above the saleroom scrum, they turn the mundane buying and selling of works of art into a social entertainment.

But while most eyes will be focused on the multi-million dollar paintings on offer to catch the breeze of a strengthening demand – including a Monet waterlilies and a Degas pastel at Sotheby's, and garden scenes by Van Gogh and Monet at Christie's – the highest price of the week, upwards of $8m, could well be paid for 428 ounces of silver.

The Parisian silversmith, Thomas Germain, made an elaborate tureen decorated with boars' heads, vegetables, shellfish and game, around 1733 for the Comte de Toulouse, a legitimised son of King Louis XIV.

According to Sotheby's silver expert, Kevin Tierney, "it is head and shoulders above any other item of silver that is likely to come on to the market." Not only is Germain regarded as the greatest silversmith of the century, and the creator of the rococo style, but very little silver made in his workshop has survived.

Even before the French Revolution melted down the silver and the gold of the aristocracy for ready money (and in an attempt to destroy the symbols of the *ancien-régime*), the Bourbon kings, notably Louis XIV and XV, had periodically called on the nobles to convert their silver and gold into *livres* to pay for their wars. By co-incidence the pair to this tureen survives – it is in the Detroit Art Institute – but apart from scattered pieces, usually of later date, commissioned from Parisian silversmiths by the royal families of Russia, Portugal and elsewhere, these creations of the greatest craftsmen have vanished. The tureens probably survived because the Revolutionary government was in awe of their quality.

For Tierney, "this tureen is the finest piece of silver to have come up to sale in my 30-year career". If it reaches its estimate it will become the most expensive item of silver ever sold at auction. Ornate objects in silver were once among the most prized of antiques. The last time a comparable item of French silver was sold in the saleroom, in 1960, the Berkeley Castle dinner service made in Paris by Jacques Roettiers at around the time of the Germain tureen, its price of £207,000 ($630,000) was a record for any work of art at auction.

Since then paintings have become the rich collectors' passion, with a Van Gogh portrait of his doctor selling for $82.5m (£49m) in 1990. This is partly because no silver artifact of the very highest quality has come up for sale. Tierney, in the ritualistic phrase, is "cautiously optimistic" that the tureen will sell. It is the kind of exceptional object which might attract very rich collectors who have previously shown no interest in silver.

It should also appeal to the committed silver collectors like Mr Al-Tajir, who in the 1980s became the biggest buyer of ornate silver in the world. But this is also an object that could interest a museum, and the Metropolitan in New York, which made an offer for the tureen in the 1950s, would like to own it, funding permitting.

The tureen is being sold by George Ortiz who inherited it from his mother. She had bought it in 1952 from the Duc de Nemours, a descendant of Louis-Phillipe, King of the French, who acquired the tureen after the Revolution. Ortiz, whose money comes from Bolivian tin, is best known as a collector of tribal art and antiquities, two of the more controversial, but rapidly appreciating, sectors of the art market. He is selling for the prosaic reason that he is 69, has four children, and it is easier to divide up money than precious objects.

Theatre

Chilly – but not chilling

In a recent interview, Tim Albery explained how he wanted to get away from "ranting and raving" in his new RSC *Macbeth*. This he certainly achieves. His production is a model of restraint; seldom will you find a *Macbeth* that tells the story with such clarity and lack of sound and fury. It is rigorous and chilly, but – and this is its downfall – never *chilling*.

Albery embraces the darkness of the play with a bleak, monochrome set by Stewart Laing. No period details here; actors run up and down a grey ramp at the front of the stage, or perch on black battlements, while the Macbeths' castle is an empty room. This has its drawbacks – *chez* Macbeth reminds you of a prefab and when graced with tables and chairs for the banquet, looks unhappily like a mobile canteen – but it does focus the action; and Mimi Jordan Sherin's stark lighting emphasises the way inner and outer worlds become confused for Macbeth. In keeping with this almost expressionist style, the weird sisters do not leap about casting spells in dry ice, but stand motionless – inscrutable black-clad women.

Roger Allam, meanwhile, is a low-key and unusually sedentary Macbeth. Stocky and reserved, he builds up an unostentatious power of his own. His soliloquies, often delivered sitting on a bench, draw you into his decision making, emphasising how an ordinary man can find himself in the grip of uncontrollable desires. This is a thoughtful, fresh reading, but it sacrifices excitement. You never *feel* anything for this man – which makes his downfall a hollow experience. Brid Brennan as Lady Macbeth is Allam's counterpoint; where he is sturdy, she is thin, fragile and driven. Her early soliloquies, tremulous with adrenalin, are good; her feverish madness however is credible but not piteous.

But the production's greatest flaw in my book is to fluff the slaughter of Macduff's family and the report of it to Macduff. This is a scene that is pivotal to all the talk of children, barrenness and issue in the play ("He has no children," says Macduff, bitterly). The savagery of the slaughter should make you blanch; Macduff's reaction to the news should bring tears to your eyes. Here you remain unmoved. There is no sense of just how barbaric Macbeth has become, no involvement in the determination to stop him. And the plotting between Macduff (a curiously undignified Colum Convey, whose wild body language seems to be making up for everybody else in the play) and Malcolm (a stony faced Sebastian Harcombe) is bizarrely tedious.

The production will be remembered, however, for its great porter. Adrian Schiller, extravagantly drunk, has a wonderful line in slapstick. When, leading his guests in, he quite suddenly disappears down a hole, the audience roars with laughter. A welcome chance to engage emotionally with this austere production.

Sarah Hemming

Macbeth continues at the Barbican, London EC2 (0171-638 8891).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Jean-Yves Thibaudet: the pianist performs works by Debussy, Ravel and Liszt; 8.15pm; Nov 14

■ BERLIN

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Faust (Margarethe): by Gounod. Conducted by Sebastian Lang-Lessing and performed by the Deutsche Oper Berlin. Soloists include Ulrike Helzel, Kaja Borris, Charlotte Butler and James Morris; 7pm; Nov 15

■ BONN

DANCE
Oper der Stadt Bonn Tel: 49-228-7281
● Giselle: a choreography by Valery Panov to music by Adam, performed by the Ballett der Oper der Stadt Bonn; 8pm; Nov 12, 15

■ BRUSSELS

EXHIBITION
Musées Royaux d'Art et d'Histoire Tel: 32-2-7417211
● Boeddha's van Siam, Kunstschatten uit het koninkrijk Thailand: exhibition on the occasion of the 50th anniversary of the reign of His Majesty King Bhumibol Adulyadej of Thailand. The display features approximately 125 objects, dating from the second millenium B.C. to the 19th century A.D. The exhibits, the majority of which come from the collections of temples and national museums of Thailand, include stone and bronze sculptures, gold, jewellery, paintings, masks, puppets, ceramics and lacquer; to Feb 16

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Kölner Rundfunk-Sinfonie-Orchester: with conductor Semyon Bychkov and violinist Maxim Vengerov perform works by Shostakovich and Tchaikovsky; 8pm; Nov 14

■ COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Danish National Radio Symphony Orchestra: with conductor Marek Janowski, soprano Jane Eaglen, tenors Stig Frogh Andersen and Robert Tear, mezzo-soprano Iris Vermillon, bass Stephen Milling and the Danis National Radio Choir perform Schoenberg's Gurrelieder; 8pm; Nov 16

JAZZ & BLUES
Copenhagen JazzHouse Tel: 45-33 15 26 00
● Tommy Körberg/Stefan Nilsson duo: the Swedish singer Tommy Körberg, known for his contributions to musicals like "Chess" and "Les Miserables", and the pianist/keyboard-player Stefan Nilsson perform Nordic folktunes and songs by Lennon/McCartney, Gershwin and other 20th-century songwriters; 8.30pm; Nov 12

■ DUBLIN

CONCERT
National Concert Hall - Geoláras Náisiúnta Tel: 353-1-6711888
● Orchestra of St. Cecilia: with conductor Geoffrey Spratt and pianist Hugh Tinney perform Mozart's Serenata Notturna, K239, Piano Concerto No.12 in A flat, K414 and Piano Concerto No.9 in E flat, K271; 8pm; Nov 13

■ FRANKFURT AM MAIN

EXHIBITION
Deutsches Architekturmuseum Tel: 49-69-2128471
● Eileen Gray (1878-1976). Eine Architektur für alle Sinne: retrospective exhibition devoted to the work of designer/architect Eileen Gray. The exhibition follows Gray's artistic development, from her works in lacquer to her architectural projects; to Dec 1

■ HELSINKI

EXHIBITION
Art Museum - Ateneumin Taide Museo Tel: 358-9-173361
● Exlibris Exhibition: a comprehensive survey of exlibris art from Finland. Included are works by such masters from the past as Akseli Gallen-Kallela, Louis Sparre and Hugo Simberg, as well as contemporary graphic artists such as Pentti Kaskipuro, Simo Hannula and Raimo Kanerva; from Nov 16 to Feb 2

OPERA
Opera House Tel: 358-9-403021
● Tosca: by Puccini. Conducted by Kari Tikka, performed by the Helsinki Opera. Soloists include Pirkko Törnqvist, Peter Lindroos and Hannu Forsberg; 7.30pm; Nov 12, 14

■ LONDON

ART & ANTIQUE FAIR
Concourse Gallery Tel: 44-171-6388891
● The London Artists' Book Fair: the fourth edition of this fair focusing on artists' book production throughout the world. Works presented include unique books, poetry books, book objects, electronic books, textless books; books made from paper, clay, fabric, rubbish and food; books printed by lithography, letterpress, etching, laserprinters, photocopiers and potatoes; from Nov 15 to Nov17

■ MADRID

DANCE
Teatro Albéniz Tel: 34-1-5219998
● Gitano: a choreography by Javier LaTorre to music by Viejin, Carmona and Gianola, performed by the Ballet Flamenco de Antonio Canales Estrena. Soloists include Antonio Canales, Sara Varas, Laura Gonzalez and Monica Fernandez. Part of the Festivales de Madrid; 8.30pm; Nov 13, 14, 15, 16

■ NEW YORK

AUCTION
Sothebys Tel: 1-212-606-7000
● Impressionist & Modern Art: highlights of this sale include Claude Monet's "Nympheas" and Edvard Munch's "Girls on a Bridge". Also featured are five Impressionist works from the Shelburne Museum, including two pastels and one bronze by Degas and two Manet pastels; 7pm; Nov 12, 13 (10.15am & 2.15pm)

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● St. Petersburg Chamber Choir: with conductor Nikolai Korniev and baritone Dmitri Hvorostovsky perform Rachmaninov's Liturgy of St. John Chrysostom; 8pm; Nov 14

Carnegie Hall Tel: 1-212-247-7800
● Alicia de Larrocha: the pianist performs works by J.S. Bach, J.S. Bach/Busoni, Mompou, Espla and Albéniz; 7.30pm; Nov 13

■ PARIS

CONCERT
Théâtre de l'Opéra Comique Tel: 33-1 42 44 45 46
● L'Ensemble Orchestral de Paris: with violinist Christian Crenne, viola-player Serge Soufflard and cellist Paul Boufil perform works by Dohnanyi and Beethoven; 0.30pm; Nov 14

EXHIBITION
Musée du Louvre Tel: 33-1 40 20 50 50
● La griffe et la dent. Sculptures d'animaux par Antoine-Louis Barye: a tribute to the French animal sculptor Antoine-Louis Barye (1795-1875) featuring 90 sculptures and 50 watercolours and drawings from the collection of the Musée du Louvre and other French collections; to Jan 13

■ TOKYO

EXHIBITION
Isetan Museum of Art Tel: 81-3-33521111
● Matisse and Modern Masters from the Cone Collection: exhibition of 73 works from the Cone Collection of the Baltimore Museum of Art. The exhibition celebrates the 10th anniversary of the museum's opening; to Dec 28

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Financial Times Business Tonight

Michael Prowse · America

Republican agenda

Having embraced conservative polices, Bill Clinton now has little choice but to implement them

It may seem as though the conservative "revolution" launched by Mr Newt Gingrich, Speaker of the House, in 1994 is dead. Mr Bill Clinton won 31 states to Mr Bob Dole's 19, including such Republican strongholds as Florida and New Hampshire. In Congress many Republicans survived the election only because they publicly distanced themselves from Mr Gingrich. The chatter in Washington now is of bipartisan cooperation. Mr Clinton, verbally as adroit as ever, is talking blithely of governing from the "vital centre" of US politics.

Words can be misleading. Mr Clinton prevailed in the presidential election only because he co-opted much of the Republican agenda. Unless I am mistaken, balancing the budget, ending welfare as a federal entitlement and extending the use of the death penalty are conservative, not centrist, policies. Mr Clinton's vital centre is what, until recently, many Democrats would have dubbed conservative extremism.

Mr Clinton would have convincingly repudiated the Gingrich programme only if he had run on a genuinely Democratic platform and had regained control of at least one, preferably both, houses of Congress. As it is he has been unable to undo the damage of 1994 when, in response to the leftwing tilt of his first two years, Republicans won not just the Senate but a majority in the House of Representatives for the first time in 40 years. Last week voters endorsed this status quo: they put Mr Clinton back in the White House, but only on condition that he be constrained by Congress's conservative agenda.

The congressional results were disappointing for Democrats. In the Senate, Republicans increased their majority – quite an achievement given Mr Clinton's personal victory. The distribution of seats – now 55 to 45 in their favour – will give Mr Trent Lott of Mississippi, the majority leader, scope to block almost any presidential initiative he dislikes. The Senate will also be a more conservative body than before because of the resignation of moderates. The incoming senators include several of Mr Gingrich's revolutionary troops such as Mr Sam Brownback of Kansas and Mr Tim Hutchinson of Arkansas. Other highly conservative new entrants include Mr Chuck Hagel of Nebraska and Mr Jeff Sessions of Alabama.

Mr Gingrich admittedly lost some ground in the House. But given the vigour of the campaign against him (including $35m in negative TV ads financed by organised labour), the Democrat gains were modest. Republicans lost about 10 seats, only a fraction of the 62 they won in the 1992 and 1994 elections. If history is any guide they will gain more seats in the mid-term elections of 1998, since voters usually react against the party holding the presidency.

But surely the scale of Mr Clinton's personal victory gives him great leverage to shape the policy agenda in his second term? Not really, because the victory was not that great given the propitious circumstances – which included a cyclical economic upswing, a lack of foreign crises and an inarticulate opponent. Mr Clinton is the first president since Woodrow Wilson to be elected twice with less than 50 per cent of the popular vote. He beat Mr Dole by a margin of only 8 points – about half what the polls predicted.

He would not have won at all but for his big lead among women voters. And he would not have prevailed if the US electorate ethnically resembled either Europe or Asia. Among whites and Asians, Mr Dole won by margins of 46 per cent to 44 per cent and 48 per cent to 41 per cent respectively. Mr Clinton's victory reflected overwhelming support among Hispanics and blacks who voted Democrat by margins of 70 per cent to 22 per cent and 84 per cent to 12 per cent.

Exit polls also indicate that many voters held their noses while casting their ballots. Some 55 per cent of voters said they believed Mr Clinton was "untrustworthy", while 59 per cent said he had not told the truth on Whitewater. Given this degree of public distrust – which may rise as investigations of various scandals proceed – Mr Clinton may enjoy less authority than past second-term presidents, many of whom have been regarded as lame ducks.

So far as domestic policy is concerned, the locus of power is likely to remain in Congress. In part this simply reflects the US political system: at home presidents have never enjoyed the kind of power they like to project abroad. The legislative branch legislates; it can and probably will ignore much of the detail of White House policy proposals. Mr Clinton will be able to veto bills he dislikes, but if he wants to get things done – and earn a place in history – he will have to respect the priorities of Republican leaders.

Far from ending, the conservative revolution of 1994 is thus entering a more mature phase. On Capitol Hill, the mantle of leadership may pass from Mr Gingrich, who is burdened by his own alleged ethical shortcomings, to Mr Lott, the suave Senate leader. Mr Lott may prove a more formidable adversary for Mr Clinton than Mr Gingrich.

He is as dedicated as his House colleague to conservative goals such as smaller government and lower taxes, but he makes his arguments more persuasively. On television he is courteous and accommodating where Mr Gingrich was aggressive and intransigent. Mr Clinton will enjoy a honeymoon of perhaps three months. And then, if he shows any sign of retreating from his new conservative rhetoric, the bullets will start flying – notwithstanding talk of the vital centre.

AP

The other winners: Newt Gingrich (left) and Trent Lott

·LETTERS TO THE EDITOR·

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Time ripe to give 'value' priority again in investment strategies

From Mr Kevin Barker.

Sir, There has been a large number of articles written on "value investing" over the past few months, with the latest by Barry Riley on November 6 ("Growth investors who came in from the cold"). All the articles, which have been supported by extensive academic studies, have agreed on two points. First, in Mr Riley's words "value-based stock selection strategies outperform growth styles in the long run". Second, "value" has been out of favour over the past two years.

As pension funds typically have liabilities stretching out for 25 years and change managers on average every seven or eight years, surely the most logical conclusion would be that now is an excellent time for clients to appoint a value manager.

The limitations of growth investing have been pointed out by many, particularly in a mature market such as the UK, where the number of genuine growth stocks in the market can be counted on two hands.

The key point Mr Riley has not addressed is that if growth does not work, what, apart from value, does?

Kevin Barker,
head of UK equities,
Foreign & Colonial,
Exchange House,
Primrose Street,
London EC2A 2NY,
UK

Ludicrous to trot out old jibe

From Lord Roll of Ipsden.

Sir, I am glad that Robert Solomon (Letters, November 6) has suitably responded to Michael Prowse's extraordinary piece on Keynes ("Spurning Keynes", November 4). Prowse's opposition to Keynes causes no surprise knowing his adoration of Mises, but the degree of prejudice and misrepresentation in this piece almost makes it unworthy of serious discussion.

I will just mention one point. He trots out the old jibe about Keynes's "infamous" statement "in the long run we are all dead": a statement generally thought to have been attributed to Keynes by Pigou. There is a reference to the human life span in the *General Theory* in the detailed discussion of the characteristics and differences between the short-term investor and the long-term investor – "he who most promotes the public interest".

Among the constraints on long-term investment decisions Keynes mentions in passing "life is not long enough". To construe this into some kind of a slur on Keynes' concern for the future is simply ludicrous; all the more so when one recalls what he did for the finances of King's College and as chairman of the National Mutual Life Insurance Company.

Eric Roll,
1 Finsbury Avenue,
London EC2M 2PP, UK

Confused support for Pakistan move

From Mr Daniel Moylan.

Sir, Your leader on the presidential coup in Pakistan ("Throwing the rascals out", November 6) was bizarrely self-contradictory. You say that "if half the allegations levelled against Miss Bhutto's government are true, she richly deserved to be stripped of office". But you do not pause to ask the crucial question (an important one for serious journalists, I would have thought) whether half, or even one-tenth, of them are in fact true before rushing on to congratulate the president on his "courageous" step. You criticise him only for not acting earlier to appoint a "technocratic" government: the latter, you say, would not be an affront to democracy provided its mandate was for a limited period.

Try re-reading the relevant parts of the leader with the Queen and Mr Major substituted for their Pakistani counterparts and see if you would like the regime you so happily recommend for Pakistan.

You compound your confusion by then hoping that all sides can co-operate to ensure that "stronger political institutions can produce a stronger democracy". One does not, however, strengthen democratic institutions by dismissing an elected government that still commands a parliamentary majority, putting troops on the street and placing the prime minister under house arrest and *incommunicado*. All you achieve is to confirm to the rioters and the disseminators of allegations that their tactics will get results if they do not like the outcome of democratic elections. You also confirm that it is not lack of strong political institutions but rather the presence of one overwhelmingly powerful one – the army – that is the bane of Pakistani democracy.

There is a case, not a very respectable one, for saying that in some third world countries at least, a benign military dictatorship is more suitable than democracy. Are you sure that is not the case you are unconsciously making?

We know how the Pakistani army can deal with members of the Bhutto family. If you cannot bring yourselves to call for the restoration of Miss Bhutto to the office she has been elected to, would you not think it a worthy cause for the FT now to campaign for her release from an illegal "house arrest" and the restoration and guarantee of her constitutional rights to personal liberty, political freedom and due process at law?

Daniel Moylan,
Egan Associates,
7-11 Kensington High Street,
London W8, UK

Perfume pollution in the air leaves smokers gasping

From Mr Keith Spinks.

Sir, As a regular business traveller, both short-haul and long-haul, and being a smoker, I am becoming annoyed at being the butt (excuse the pun) of the only visible passive pollutant when flying. No one seems to bother with noise pollution, screaming kids, the constant skyphone user, the heavy snorer, the odour polluter, purveyors of powerful after shave and perfumes on the 7.30 morning flight to London, or the aroma of the unidentifiable culinary offerings of some airlines.And, even worse lately, the technological polluter, laptops at 30,000 feet.

Give us smokers a break; increase the air supply and allow us some distractions from all the other in-flight passive pollutants.

Keith Spinks,
Obere Bergstrasse 3,
6004 Lucerne,
Switzerland

Personal View · Leon Brittan

New tactics for EU trade

The European Commission must be given clout as sole negotiator in trade talks

Europe's external trade policy has been perhaps the finest advertisement for the pooling of national sovereignty since the European Community came into being. It has made Europe a powerful force for open markets across the world, giving it the lead in trade liberalisation, securing access for European companies and preventing the worst excesses of predatory trading by our partners. It has converted the single European market into a vast negotiating lever to win global access for European exports and investment by challenging our partners to be as open to us as we are to them.

Yet there is now a very real risk that these huge gains will be eroded unless Europe adapts its trade policy to keep up with developments in the world economy itself.

In the past, protectionism was characterised by massive tariff walls to fend off foreign goods. The European Community's common commercial policy was designed to bring these tariffs down in step with her partners. The crowning achievement of this policy was the Uruguay Round, which cut industrial tariffs by more than a third. But by then things were already changing.

The global economy is now driven more by growth in services such as transport, tourism and financial services and less by traditional manufacturing. While exports have grown, overseas investment has grown even faster. Simple tariffs now seem much less important, not just because they have been cut so much, but also because the economy has shifted on to pastures where new, complex and equally pernicious barriers exist.

If the world economy has moved on, Europe's ability to keep it open for the benefit of its companies has not.

Popperfoto

Sir Leon: the Treaty of Rome needs changing too

Europe's policy on trade, enshrined in Article 113 of the Treaty of Rome, was the perfect tool for the task of knocking down tariffs on manufactured goods. For anything more sophisticated – such as removing barriers to investment in emerging markets, clamping down on copyright piracy or negotiating worldwide liberalisation of shipping, banking, accountancy or tourism – it is fast becoming obsolete. The European Commission, Europe's trade negotiator, is being asked to drive a Rolls-Royce with a Morris Minor engine.

That is why the Commission is urging EU leaders at the intergovernmental conference to update Article 113 so that Europe can negotiate with one clear voice on services, investment and intellectual property, as well as on tariffs, export policy and commercial defence. The Commission would be the sole negotiator, making proposals for negotiating directives and consulting closely with national ministers, who would approve them – as well as the result of the negotiations and their implementation – by qualified majority, as is the case with tariffs on goods.

This would not transfer new powers to Brussels. The treaty already allows these issues to be handled at European level, and the European Court of Justice has ruled that as trade develops, the EU's capacity to negotiate trade policy must develop with it. Rather, it would define existing powers more sharply, making the Commission a nimbler negotiator that could be called to heel just as easily by governments as before.

Change is long overdue. Alarm bells began ringing soon after the Uruguay Round. The European Court of Justice ruled that unless the Treaty of Rome was updated, the Commission and national governments would have to share responsibility over "new" trade areas, such as investment, services and intellectual property.

In practice, this means any member state is able to veto comprehensive trade negotiations. No one issue can be isolated from the rest; a veto on one becomes an effective veto on all. And tempting though it is to believe that we have seen the back of unwieldy trade "rounds", experience since the Uruguay Round – in financial services, basic telecommunications and maritime transport, for example – shows that single-issue negotiations do not yield results. Horse-trading works better the more horses there are to trade. If Europe wants to be effective we need a single negotiator and qualified majority voting.

If Europe is faced with a global negotiation covering traditional tariffs on goods as well as branching into new rules on investment and intellectual property, as I believe may happen by the end of the century, then a small national tail could be wagging the large European dog at every turn. Europe's interests, as well as her collective image in the world, will suffer. This problem will worsen the more countries that join the EU. It is hard to predict whether our trading partners will be more amused or frustrated. Moreover, as the balance has shifted so far in the EU in the direction of freer trade, any veto that is exercised is likely to be on behalf of an unreconstructed protectionist country.

In the Eurosceptical climate, governments are inclined to see an increase in efficiency as a shift of power towards Brussels, even when they are unanimous on the need for action. Last week the EU's powerful opposition to the Helms-Burton Act was held together only after lengthy efforts to provide a formula acceptable to Denmark. Such incidents could proliferate if the dividing line between national and European responsibility is not clarified.

There is every reason to believe that the Commission will use a refined trade instrument responsibly. Tomorrow in Brussels I will be launching a new "market access strategy" to improve Europe's access to world markets. This will regroup all the multilateral and bilateral tools at Europe's disposal and urge business executives to tell the Commission where the most persistent barriers hinder their exports and investment.

It will not change the Commission's powers. Instead, it will use a vast database to list market hurdles by sector and by country around the world, monitor legislation to open those markets and recommend the right action – whether a veto panel or a bilateral negotiation, for example – if they remain closed. All 15 EU governments support it. But for the strategy to work fully, the Treaty of Rome needs changing too. No negotiator can do worthwhile deals with his hands tied behind his back.

Sir Leon Brittan is vice-president of the European Commission responsible for trade policy

COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday November 11 1996

Southerners' dash for Emu

For Italy, Spain and Portugal, entry into European Monetary Union (Emu) is a matter of deadly seriousness. It is equally serious for the markets, where investors have placed a substantial bet on these countries achieving their goal. Yet the French and the Germans have made clear that they are concerned at the prospect of the southern Europeans participating in the initial hard core.

Mr Jean Arthuis, the French finance minister, even warned last month against a hasty Italian re-entry into the European exchange rate mechanism. What, then, are we to make of last week's declaration that Italy will apply to re-enter the ERM by the end of November?

The Italian finance minister Mr Vincenzo Visco has mooted a range for entry of between L1,000 and L1,050 to the D-Mark, which compares with just over 800 before the lira's ejection from the ERM in 1992. Since hitting its low in 1995 the lira has appreciated sufficiently for Italy to be able to make a credible claim to be meeting Mr Arthuis' demand for a "durable, sustainable and equitable" rate.

But an equitable rate, which has implications for competitiveness, would be met only at the lower end of the range; and even there the French will no doubt drive a hard bargain.

Yet this is all small beer compared with the question of compliance with the convergence criteria of the Maastricht treaty. And while there may appear to be an air of unreality about the southern European aspiration towards early participation, the logic is anything but flawed. For a country like Italy, fiscal consolidation outside Emu is a barely attainable grail. To stabilise a ratio of debt to GDP of more than 120 per cent, it has to run large primary budget surpluses – the budget balance excluding interest – for as far as the eye can see.

Between 1992 and 1995 Italy ran a primary budget surplus each year, achieving the impressive feat of raising it from 1.4 per cent to 3.4 per cent of GDP. Yet real rates of interest were so far in excess of Italy's rate of growth that the Maastricht definition of debt still rose from 108 per cent to nearly 125 per cent.

The attraction of participating in a German-dominated Emu is that it helps remove the interest rate burden from the back of Sisyphus. Each percentage point fall in the nominal interest on the debt delivers a reduction in borrowing of about 1 per cent in two years.

Since the start of the year the yield on Italy's benchmark bond has fallen by about 2¾ percentage points. This has a self-reinforcing effect on credibility. And paradoxically, the fact that France and other potential early entrants have used creative accounting to meet the Maastricht criteria strengthens the market's convictions, because it weakens the ability of the French and Germans to delay access to the second-round entrants.

The behaviour of the southern Europeans and of the markets is thus entirely rational. The real question about the markets' punt on southern Europe is about the credibility and sustainability of an Emu built on so much fiscal fudge. But on this, at least, the markets are with Keynes. In the long run we are all dead.

Victorian value

When the great museums of the Victorian era were built and extended in the last decade of the 19th century, Britain's real income per head was roughly equivalent to that of present-day Uruguay.

Yet in one respect the country was rich: in the vision which established these splendid monuments to culture and scholarship, intended to be open to the public as a means of raising the nation's intellectual and artistic consciousness. Whatever may be thought of such lofty aspirations, they left a heritage which remains an important part of the nation's identity.

One reason was the tradition of free access. It not only allowed anyone to visit museums and galleries, but conferred a sense that the treasures in them belonged to everyone – which, broadly, they do.

Since those days, a progressive squeeze on costs has forced many great museums to start charging for entry. Only five of the big institutions funded by the National Heritage Department's £213m grants have resisted the trend. The British Museum is likely to be the next to go.

A tradition of free access may have contributed to the defects of financial management exposed in a recent report on the museum. But setting charges to pay for inefficiencies should not be the answer, and certainly not for British taxpayers.

This is a case in which the price mechanism will act perversely – to limit an activity which should only be encouraged. And if the Victorians could afford to build great museums for the people, surely a much richer nation can afford to let them in.

Hopes and fears

Nine months after the resumption of Sinn Féin/IRA's terrorist campaign, there is speculation in Northern Ireland about another ceasefire. Mr Gerry Adams, the Sinn Féin president, has indicated that republicans might be ready to put aside their weapons for a second time in return for speedy entry into the multi-party talks on the future of the province.

Mr John Bruton, the Irish prime minister, remarked last week that there was evidence of "serious rethinking" in the senior ranks of the republican movement. At the same time, Mr Ronnie Flanagan, Northern Ireland's new chief constable, spoke of a "very significant" recent meeting of Sinn Féin/IRA commanders.

Mr Bruton's officials have been in close contact with their counterparts in Mr John Major's Downing Street office to discuss the terms under which a ceasefire would secure Mr Adams a seat at the negotiating table. Sir Patrick Mayhew, the Northern Ireland secretary, has indicated that the British government is willing to clarify the mechanics of Sinn Féin's inclusion.

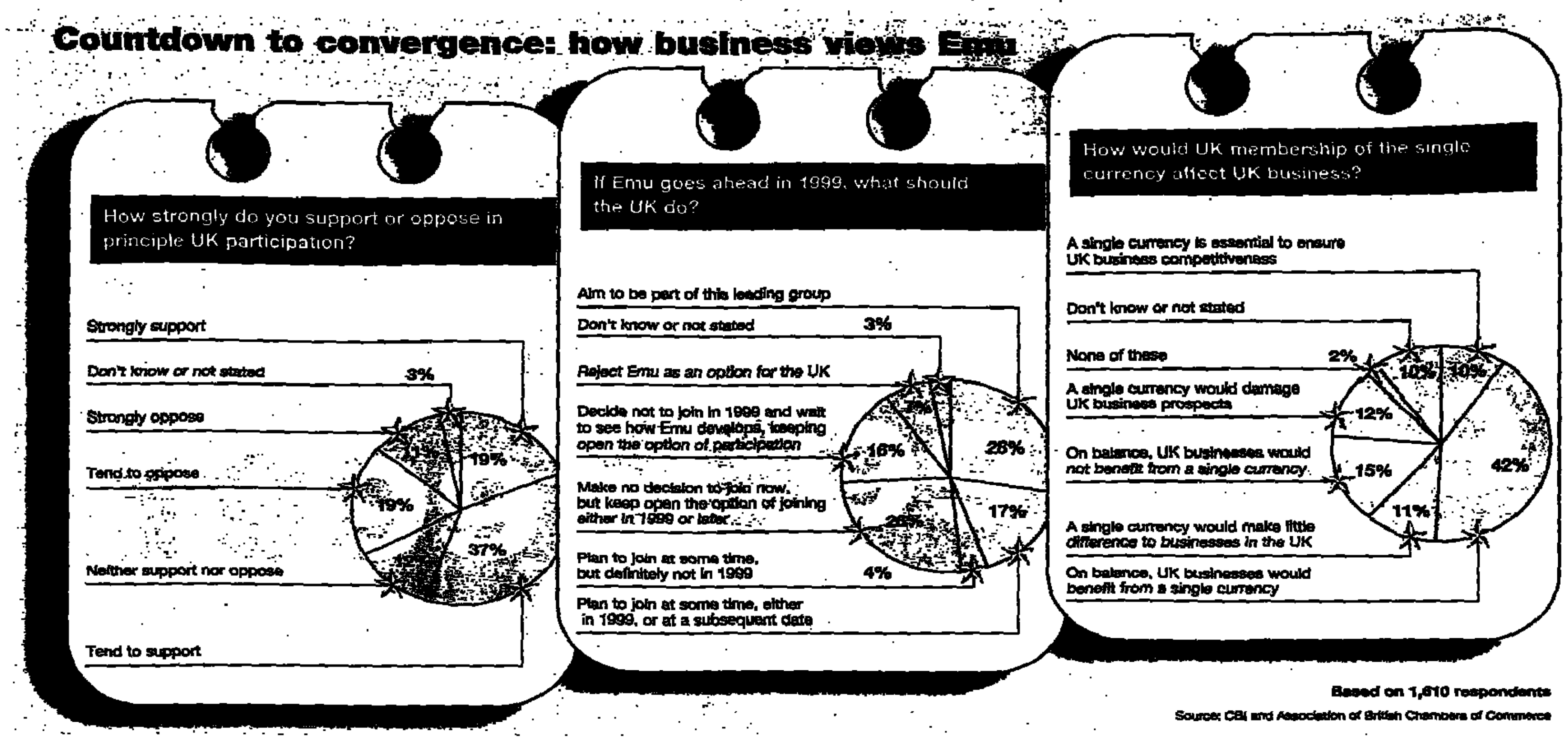
This flurry of activity should not give rise to unbridled optimism. The callous IRA bombings over the past few months in London, Manchester and Belfast were a reminder of the instinct for violence which pervades republicanism. The latest apparent change of heart presents as many dilemmas as opportunities.

Most obviously, it would be hard to discern whether a resumption of the ceasefire represented a serious commitment to the political process or merely a temporary manoeuvre to win tactical advantage. Understandably, Northern Ireland's unionist politicians have made it clear they are unwilling to take the intentions of Sinn Féin/IRA on trust.

There is also a moral dilemma. It is sensible for the London and Dublin governments to restate that all parties which renounce violence have a right to join the negotiations. After all, representatives of the so-called loyalist paramilitaries are already at the table. But there is a thin line dividing that response from one of negotiation with Sinn Féin/IRA about what it could gain from a new ceasefire. The latter approach would leave both governments open to the charge that they had succumbed to the blackmail of violence.

That said, it would serve the purpose of no-one in Northern Ireland, least of all the unionist majority, to dismiss out of hand the prospect of a renewed peace. While any ceasefire would have to be convincing before Mr Adams could be allowed into talks, it could be counterproductive to set down a fixed period of "decontamination".

Instead, Mr Major and Mr Bruton should make clear that the onus would be on Sinn Féin/IRA to convince others that its renunciation of terrorism was genuine. All violence would have to stop. The republican leadership would have to embrace unequivocally the commitment to purely peaceful means enunciated in the six principles set down by Mr George Mitchell, the independent chairman of the talks. If that happened, Ulster's fears might slowly begin again to turn to hope.



Two sides of the coin

Stefan Wagstyl and Peter Marsh on divisions among UK business leaders over membership of the European monetary union

For Mr Colin Gaskell, managing director of the 600 Group, the machine-tool manufacturer, going into European economic and monetary union (Emu) would be "horrendous". For Sir Clive Thompson, chief executive of Rentokil Initial, the environmental services group, staying out would be "extremely naive".

The rhetoric which has long coloured the political debate over monetary union is starting to seep into the language of business executives. But as the 1999 deadline for the launch of the single currency approaches, British executives – like British politicians – are finding it difficult to reach consensus on the issue.

As Sir Colin Marshall, president of the Confederation of British Industry and chairman of British Airways, says: "Business and industry are divided."

The clearest picture of corporate views on monetary union emerges today with the publication of an opinion poll of business executives by the CBI and the Association of British Chambers of Commerce. This shows support for UK membership of the single currency has grown since a similar survey last year.

But a clear division remains, with 58 per cent of those polled in favour of joining the monetary union and 30 per cent against. The issues seems certain to dominate the agenda at the CBI's annual conference which starts in Harrogate today.

As Sir Clive says: "With such divisions, the CBI is in a very difficult position."

Like the leaders of many other large UK multinationals, Sir Clive believes the economic case for joining Emu is strong. A common currency will, he says, reduce barriers to trade by cutting foreign exchange transaction costs and currency volatility.

Sir Clive rejects the view that the UK needs to keep its own currency so it can devalue if the economy runs into difficulties. "We cannot avoid the issue of improving our competitiveness. We need better products and more innovation, not a cheaper currency."

He also dismisses suggestions that the UK will be surrendering sovereignty. "Outside Emu, governments have already lost influence over exchange rates and interest rates and to some extent over taxation because of the globalisation of markets."

An equally passionate supporter of monetary union is Sir David Simon, chairman of British Petroleum. He supports the government's wait-and-see approach but thinks the country's future belongs in Emu. "We must go in for the sake of our children," says Sir David.

At Unilever, the Anglo-Dutch consumer products company, Mr Niall FitzGerald, chairman, is also convinced the UK must join – so long as the economic conditions are right. Monetary union must not be rushed, he said in a speech in London last month, for a bad Emu could undermine the European Union.

But, if the conditions were right, the UK had to belong, said Mr FitzGerald, who chairs the CBI's Europe committee. "In essence the choice before Britain on Europe is a simple one. It is between being in or being out."

Mr John Gardiner, chairman of Laird, an engineering group primarily supplying the car industry, thinks the political need to be at the heart of Europe outweighs any economic concerns.

"I've spent two years trying to think of sensible arguments to support a single currency and I haven't found any. But I believe Britain would be well advised to get into it so the country can contribute to its future development. It's the least bad option."

However, even among the largest multinational companies, there are executives who are worried about a premature entry into the monetary union.

Royal Dutch/Shell, for example, operates in 120 countries and says monetary union affecting just 15 would not be a particularly significant change for the group – especially as oil is priced in dollars. Mr John Jennings, chairman of Shell Transport and Trading, the British holding company, this summer was among business leaders who signed a letter to the FT urging the British government to keep open its options and avoid isolation.

But Mr Cor Herkströter, president of Royal Dutch, the Dutch holding company, has warned publicly that Emu should not be rushed. He said in a recent speech: "I would like to see considerable progress made towards overall socio-economic policy convergence before we embark on the very risky and uncertain path of monetary union."

Mr Herkströter's caution is shared by a phalanx of UK manufacturing groups, led by some large engineering companies. Sir Christopher Lewinton, chairman of TI, Sir Colin Hope, chairman of T&N, Sir David Lees, chairman of GKN, and Mr Allen Yurko, chief executive of Siebe, all say they favour European business integration and are not against a single currency in the long term.

However they stress that the large differences between Europe's big economies – factors such as inflation rates and labour practices – makes locking currencies in the immediate future impractical and unwise.

The managers of Britain's privatised utilities mostly agree. "I think it would be premature to join a single currency," says Mr Norman Askew, chief executive of East Midlands Electricity.

"We've had three good years of low inflationary growth, but we have to earn a strong currency. Only in five or so years' time, if we can maintain our present growth and inflation, should we consider joining Emu."

For others, doubts about the conditions and timing of entry reflect concerns about the underlying merits of a single currency. Mr Dominic Cadbury, chairman of Cadbury, the confectionery group, says he is not necessarily opposed to UK membership in the long run but he is against early entry. "The risks can't be justified. You would be gambling by being in the first wave [of countries joining Emu]."

Mr Cadbury says there are serious political objections to monetary union. "Where are the democratic controls over the proposed European central bank?" he asks. The loss of political control would be "unprecedented".

Mr David Sainsbury, chairman of J. Sainsbury, the supermarket chain, agrees: "I consider myself pro-European but I have considerable doubts about a single currency. There must be a question over whether it will be right all the time to have one single monetary policy for Europe."

The outright opponents of monetary union put forward similar arguments but with greater force. Mr Chris Miller, chief executive of Wassall, a UK industrial conglomerate, argues the UK needs to retain independent economic management. The country benefited from low labour costs, flexible working practices and the help given to exports by the pound's 1992 devaluation.

Mr Miller fears that if Britain entered a single currency, locking exchange rates would inevitably lead to harmonisation of other elements such as labour laws. "I'm not surprised that German companies want Britain in a single currency," he says. "They'd like us to have their high wage and social costs, so that everyone's on the same playing field."

Mr Gaskell, of the 600 group, Britain's biggest machine-toolmaker, agrees: "The potential disadvantages to a single currency are horrendous. Britain would be locking itself into an economic system whose future path no one understands. Once we were in, there would be no going back."

But it is among businesses with little exposure to export markets that the most entrenched opposition to UK membership of the monetary union is to be found.

Mr Robert Staples, chairman of a family-owned paper and polyester converting business in Yorkshire, says: "Emu is an absolute no-no. The reason is quite simple. Once you hand over control of money to a third party you will never get it back. In this case we would give it to the Bundesbank, even if you call it the European bank, and it will be gone for ever."

There are pro-Emu supporters among smaller companies, particularly exporters. Mr Hugh Morgan Williams, chairman of Canford Audio, a maker of professional audio equipment which exports 35 per cent of its sales, says staying out of the monetary union would damage the UK's position in the European single market. "It would be quite natural for those in the inner club to use sanctions against those on the outside."

Mr Morgan Williams says smaller companies will benefit in the same way as big groups from advantages of the single currency such as lower transaction costs. "We will gain from the first day of monetary union."

But such enthusiasm is unusual outside big company boardrooms. Mr Staples speaks for many more small companies than Mr Morgan Williams when he says: "People don't want it. It's not for this country."

With both major parties adopting a wait-and-see approach to monetary union, the CBI has so far taken the same attitude rather than risk exacerbating the divisions among its members.

CBI officials acknowledge that they cannot procrastinate much longer – the UK must decide by the middle of next year to start preparations for entering the single currency or it will be too late to join in 1999. Sir Colin Marshall and his colleagues plan to start early next year trying to build a consensus among members.

But unless there is a dramatic shift in opinion, consensus will be difficult to achieve. There is little prospect that the government – whether Conservative or Labour – will hear a unanimous voice from business.

· OBSERVER ·

Dan, Dan money man

■ There's no such thing as a bad penny in Dan Peña's book. Every single one can be used to help make you mega-rich in extra-quick time, boasts the flamboyant former chairman of Great Western Resources, the US-based oil and gas group.

Now he's banging the drum for his latest venture – $5,000 seminars for people who want to "make more money than you can spend in not one lifetime, but three!" The first is in Amsterdam at the end of this week.

Peña's claims, particularly that he can teach budding entrepreneurs to make millions "all with other people's money", may trigger memories among longstanding shareholders of GWR.

He was forced off the board of the company in 1991 after investors rebelled against his propensity to file large expense bills – one of the most memorable involving the hire of a Lear jet to transfer his dog Driller to Houston at a cost of $10,000.

The dog's fare was repaid but it took almost two years to resolve disputes over a series of loans and other payments – including a $1.5m penthouse purchased by GWR to house Peña's family while the company moved headquarters.

Last week GWR was talking to potential bidders about a takeover valuing the shares at about 18p each, an improvement on the 8p level they had reached when he left, although still a long way from earlier highs of more than 240p.

But GWR investors are not likely to disagree with at least one of the entrepreneur's boasts, that "after spending time in the company of Dan Peña you will look at money in a whole new light."

Ducking out

■ Intrepid watchers of EuroDisney may fear the worst with news that the Paris theme park has postponed publication of its financial results, due later this month, by five days. But the company insists there is no funny business afoot; the postponement, it claims, is due not to some unexpected problem with the company's accounts, but to another planned strike by French journalists in protest at the proposed end to a 60-year-old tax break.

EuroDisney's accommodating approach is not shared by the French government, which last month pressed ahead with a parliamentary debate on its controversial 1997 budget in spite of a near-total news blackout because of a similar day of action.

Ministers, of course, may have believed ignorance was bliss as far as the French public was concerned. Conversely, does EuroDisney's determination to ensure its figures are fully reported mean investors might at long last prepare themselves for some better news?

Bye Bill

■ Bill Clinton's second-term economics team is unchanged at the top with Robert Rubin and Alan Greenspan unassailable at the treasury and the Fed. But further down the totem pole of command the Family Leave Act, a much-touted first-term accomplishment, is being taken literally.

Labor secretary Robert Reich signed off from the administration by writing in the New York Times that "you love your job and you love your family and you desperately want more of both". But he's concluded it's impossible, so he's going back up to Boston, the four-year commute over – though whether back to Harvard or not he doesn't yet know.

There may also have been some disappointment in the decision of Laura Tyson to quit as head of the president's national economic council, the White House policy co-ordinating shop created by Clinton and first run by Rubin. She may have been a little fed up not to get the treasury, but her husband, a film screenwriter, had already gone back to California.

Top candidate for her job could be Larry Summers, now Rubin's number two and hankering after something bigger. But Sandy Berger, deputy to Tony Lake at the national security council, is also in the frame. Both have the advantage of being inveterate capital cave dwellers.

Silly fuel

■ British Petroleum already has its hands full coping with a public relations nightmare in Colombia; now it's facing a spot of bother with the locals in Belfast. Seems the electronic price displays in one busy service station have been flashing up the names of the UDA and the UFF, the loyalist paramilitary organisations which traditionally use petrol for purposes other than motoring. An enraged Sinn Féin councillor has been moved to condemn the business as an example of "sectarian arrogance at its worst". BP, whose staff are having to come out several times a day to reprogramme the pumps, is more relaxed; it blames daredevil children.

The Financial Times

100 years ago

Railroads And Wheat

The Omaha line of the North-Western system is said to have hauled nearly 3,000 more cars of grain last month than in the corresponding month of any year. The Rock Island road is short of cars, and the Burlington, Missouri, Milwaukee and Union Pacific lines also report a glut of grain in their systems, with which they have the utmost difficulty to cope. The enormous amount of grain on hand in the West was being rapidly pushed forward, to the immense gain of the railway companies and the farmers.

50 years ago

A Great Republican

I question the wisdom of assuming that a Republican Congress is disadvantageous to Britain. With a few notable exceptions the tribal chiefs of Britain-baiters in America have belonged to the Democratic party while traditionally the Republicans have generally been friendly to Britain. Next to President Roosevelt our best friend in the United States before and during the war was that stalwart Republican Mr H.L. Stimson. Mr. Stimson is now near his 80th birthday and in spite of the burden of his years he was probably the most successful Secretary of War in the history of the United States.

FINANCIAL TIMES
Monday November 11 1996

Fraud office to investigate at French request

Banks face UK probe over Eurotunnel shares

By William Lewis and Motoko Rich in London and David Buchan in Paris

The UK's Serious Fraud Office is to investigate London-based banks and financial institutions over allegations that they were involved in a complex market manipulation of Eurotunnel shares.

In an unusual disclosure, the SFO yesterday announced the probe following a formal request last week from the French police.

It would work "on behalf of the French authorities", but did not "have grounds to investigate market manipulation on a domestic level," it said.

Eurotunnel, the Anglo-French operator of the Channel tunnel, said last night that it believed the investigation centred on allegations of manipulation and possible insider dealing relating to Eurotunnel's £858m ($1.4bn) rights issue in May 1994.

The Commission des Opérations de Bourse (COB), the Paris bourse watchdog, began an investigation in June 1994 after suspicions that underwriters had forced the share price down before the price was fixed, through short selling, in order to limit their underwriting risk.

In July 1995, the COB said it had found evidence of a suspicious amount of "short selling" – the sale of shares which an investor does not actually own but hopes to buy back later at a lower price – and passed details to the French fraud squad.

At that time, the COB also said it was investigating two banks involved in underwriting the rights issue. But in March the COB said it had decided not to pursue allegations of insider trading against Salomon Brothers and Swiss Bank Corporation, two of the 13 banks involved in the 1994 underwriting.

French financial detectives, who have broader powers of investigation than the COB, are understood to have maintained their wider probe into the insider trading allegations, which is now thought to focus on at least five banks. A request to extend the investigation to the UK was recently referred to the SFO by the UK's Home Office.

Last month, Eurotunnel said it had agreed a refinancing plan with its main banks, through which they would take a 45.5 per cent stake in the company.

The package of measures, which includes convertible bonds and equity warrants, will result in a £2bn reduction in the group's £9.1bn debts and will lower interest payments on the rest. Before it can be implemented, the deal must be approved by all 225 banks in the lending syndicate and by 75 per cent of shareholders.

Eurotunnel's share price has been volatile due to uncertainty about its financial viability. The group has complained to the COB about leaks and hoaxes concerning its debt rescheduling efforts.

Last night, Eurotunnel said it did not believe that these other complaints had triggered a formal investigation by the French fraud squad.

Philips settles out of court in Super Club row

By Gordon Cramb in Amsterdam

Philips, the Dutch electronics group, has settled out of court a $3bn lawsuit brought by the founder of Super Club, a Belgium-based chain of home entertainment stores, which it rescued in the early 1990s.

The company said it had not admitted any blame in the case, brought in Texas by Mr Maurits de Prins. He alleged that he and other minority shareholders were deceived because of the "criminal manner" in which Philips took over Super Club.

Philips declined to give details of the settlement but described as grossly exaggerated reports in Belgium that it amounted to "some billions" of Belgian francs.

Last December, it was obliged to confirm that Mr De Prins had filed a lawsuit three years earlier. That followed several injections of Philips' funds from 1990 into the loss-making Super Club, which had extensive US operations.

These were sold to Blockbuster, market leader in video rental, after Philips took full control of the company in 1992. The 430 stores accounted for about three-quarters of the unit's annual revenues, which were then Fl 850m ($503m).

Super Club shares, which once changed hands on the Brussels over-the-counter market for more than BFr5,000 ($160) each, were valued by Philips at just BFr150 cash in its bid to buy out the minorities. As an alternative, it offered a warrant on its own shares – at that time worth BFr225.

The scrip offer put a price of about BFr3.7bn on the company, which had slid into debt as a result of its US expansion. Its Swiss holding company was put into liquidation.

Minority shareholders had been pressing for a purchase at nearer BFr2,000 a share, the level prevailing when Philips moved to 51 per cent control in early 1991.

Super Club remains active in the Belgian and Dutch markets, selling compact discs and computer games as well as videos.

Bhutto to face criminal charges

Continued from Page 1

dropping 24 points yesterday to close at 1,492.19. Brokers voiced doubts over whether the government could implement the outline reforms in its official three-month term.

Mr Burki outlined proposals for a radical overhaul of Pakistan's banking sector to be backed by World Bank lending, and additional short-term borrowing from the International Monetary Fund to shore up the country's perilously low foreign exchange reserves, currently $650m.

Mr Burki said he had already begun talks with the IMF and the World Bank on securing additional resources.

He also expected "dozens of World Bank people" to arrive soon in Pakistan to support his planned reforms, along with additional Bank lending to back a proposal to hive off accumulated bad debts from the country's ailing banking sector into a proposed Resolution Trust Corporation.

Mr Khalid told his first press conference since assuming power on November 6 that his 12-member administration would oversee thorough corruption investigations into both Ms Bhutto's former administration and other politicians, including Mr Nawaz Sharif, leader of the opposition Muslim League. Mr Khalid said those found guilty of corruption would be barred from standing in elections due on February 3. But he also said "non-completion of the accountability process will not be a pretext to postpone the elections even for a day".

Ms Bhutto's lawyers filed a petition in Lahore High Court yesterday claiming Mr Zardari was illegally detained and asking for his release, the official APP news agency said.

Pakistan's interim prime minister Meraj Khalid said his administration would oversee a thorough corruption probe

THE LEX COLUMN

French protection

Is French protectionism in an upswing? Certainly, the storm over handing Thomson Multimedia to Korea's Daewoo has an ugly xenophobic tinge. So did the carmakers' campaign to keep Valeo French. And British Airways' interest in buying French airlines has hardly been welcomed.

Of course, BA won Air Liberté in the end – even if it had to ally with a French group to do so. And not all the opposition to the Thomson deal is nationalistic; there is also perfectly rational concern that the Thomson twins may have been sold too cheaply.

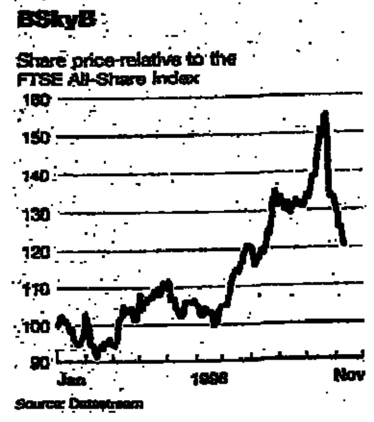
Nonetheless, instinctive opposition to letting foreigners buy French industrial jewels is all too plain. This is not just national pride; it also reflects worries that foreign bids will mean aggressive cost-cutting. With unemployment at a record high and the popularity of Mr Alain Juppé, prime minister, at a record low, the temptation for the government to play to the gallery must be great.

This would be a pity, since the government has recently shown refreshing openness to foreign buyers of state assets. Not only is Framatome due to merge with GEC Alsthom; potential foreign buyers have even been sounded out for Crédit Lyonnais. For French taxpayers' sake, let us hope the government is not too rattled by the Thomson experience to press on.

But it is not just taxpayers' interests at stake. The economy too needs more openness to change. True, French corporate culture is evolving: shareholders' interests count a bit more and some cross-shareholdings are being unwound. But there is far to go before a chairman's prestige really correlates to his company's share price.

Moreover, talk of shareholder value does not necessarily mean managers will pursue the tougher consequences. Large-scale redundancies, for instance, in the face of high unemployment and a tradition of deference to politicians, would take real nerve.

Hence the need for some red-blooded foreign bids – or at least the threat of them – if only for the sake of French competitiveness. Many fret that the result would be the gradual disappearance of a strong French corporate sector. But to hope for world-class French companies in the absence of stronger incentives to perform is a dream; losers, however prestigious, have to be allowed to fail.



That said, many apparent obstacles are probably based on bluff which a brave foreign bidder could call. By cannily engaging the Rivaud group, for instance, BA got its way with Air Liberté. And if it really tried, an independent US group such as TRW could surely have found a way to snap up Valeo. Foreigners are right to criticise French protectionism, but they should be braver about putting its efficacy to the test.

Italian banks

The Italian banking system is grinding towards crisis point, but at least the government has started doing something about it. Italy boasts 1,000 banks but no national leaders. Consolidation has so far taken the form of the government arm-twisting big banks into mopping up corporate casualties – so no excess capacity has been removed. The result is that Italy's largest banks offer the poorest returns on assets within Italy and among leading European economies. Something badly needs to be done. Non-performing loans are growing far faster than new loans, and so are costs.

The proposals put forward by Mr Carlo Azeglio Ciampi, treasury minister, would help achieve two worthwhile goals: the genuine privatisation of the banking system, by forcing charitable foundations which control hundreds of banks to sell out; and a push for commercially-driven mergers and acquisitions, encouraged by tax breaks. The benefits would be manifold. The banking system should become more competitive, reducing costs, broadening its range of services and developing proper risk management systems; all of which would benefit Italian industry. Furthermore, the foundations would receive trillions of lire which could be recycled into other stocks – boosting the government's privatisation efforts – although, of course, the cash to buy their banks stakes will have to come from other funds.

Sadly, Mr Ciampi's proposals are also flawed. Under the time frame proposed, foundations will have 10 years to sell out. They will also have to sell only 51 per cent of their bank holdings, so they could retain effective control. Furthermore, the foundations will be accountable to nobody for the management and distribution of their new-found riches. That hardly bodes well for their efficient deployment. Mr Ciampi deserves much credit for putting the issue at the top of the political agenda, but it is unfortunate that he is not starting with a tougher line.

BSkyB

"There is a Mr Cruickshank who takes a great interest in what BT or Sky do," Mr Rupert Murdoch told the *Financial Times* last week. The quote is telling. Mr Don Cruickshank, Britain's director-general of telecommunications, is responsible for regulating BT. It is less well known that he will also oversee BSkyB, when the satellite broadcaster switches to digital technology next year. A draft paper is soon to be issued on how the market will be regulated.

The switch is important because it marks a step-up in the regulatory risk facing BSkyB. To date, its effective pay-television monopoly has been largely unregulated. True, the Office of Fair Trading has made periodic investigations. But it has been operating under the UK's weak, general competition law and has had no special expertise in the field. By contrast, Mr Cruickshank's Office of Telecommunications will have a specific licence to police. If he is remotely as tough on BSkyB as he has been on BT, shareholders should be worried. Moreover, the shift of responsibility to Oftel may depoliticise the process. Politicians may have been reluctant to take too harsh a line on BSkyB because they fear the wrath of Mr Murdoch's newspapers.

Even after the latest slide in BSkyB's shares, the stock is trading on around 35 times 1999 earnings. If investors start focusing on the risk that BSkyB's monopoly may be chipped away, the shares will fall further.

Brussels may ban state-backed loan guarantees

Continued from Page 1

ments be reported to its competition authorities.

However, an amnesty could have only a limited effect. Even if Brussels declared it was not going to examine past abuses, there would be nothing to prevent disgruntled competitors from making their own challenges in the courts.

In a case that brought the issue of state guarantees to the fore, the Commission in 1993 challenged the Italian state over the granting of aid to Efim, the troubled state holding group. The Commission objected to the fact that Efim was provided with unlimited guarantees. The Italian government argued that it was obliged to honour what amounted to sovereign debt. The Commission accepted this argument but negotiated reductions in other state aid.

Loan guarantees are particularly widespread among state enterprises such as national rail companies, post offices and other utilities. But it has spread to the private sector, where governments have moved away from straightforward cash handouts to more sophisticated forms of assistance.

"The extent to which governments use guarantees is enormous," said one diplomat in Brussels. "It has an extremely distorting effect."

FT WEATHER GUIDE

Europe today

Most of Europe will have cloud and rain but the extreme south-east will be sunny. A low pressure system off the west coast of Denmark will bring rain over Denmark and the Baltic Sea. Another depression south-west of Ireland will bring cloud and rain to the Atlantic coasts.

Northern Scotland and the interior of Norway will have snow and sleet showers.

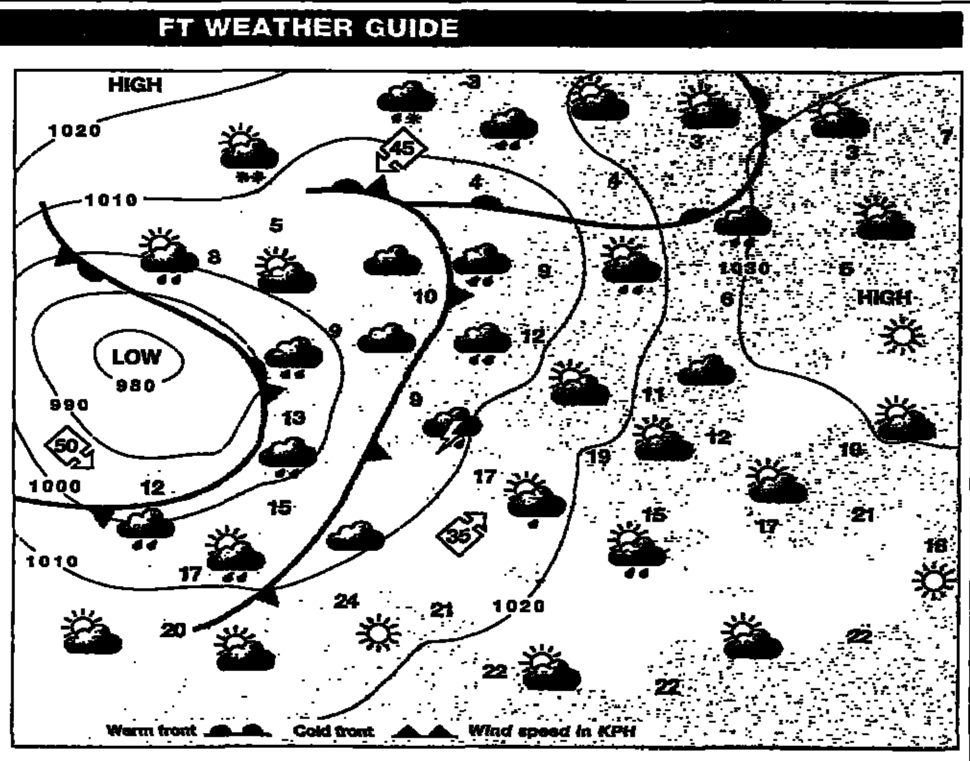
Rain could be heavy at times over north-eastern Spain.

Heavy thunder showers are expected over northern Italy. It will be sunny over the Aegean Sea and the Middle East.

Five-day forecast

The low pressure southwest of Ireland will move towards Spain. As a result, heavy rainfall and thunder is expected over southern France and northern Italy.

Temperatures will increase over eastern Europe.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 12	Caracas	thund 30	Faro	rain 19	Madrid	rain 11	Rangoon	fair 32
	Celsius	Belfast	fair 6	Cardiff	fair 7	Frankfurt	cloudy 11	Majorca	shower 19	Reykjavik	snow -2
Abu Dhabi	sun 26	Belgrade	shower 14	Casablanca	fair 21	Geneva	rain 12	Malta	cloudy 21	Rio	fair 34
Accra	cloudy 31	Berlin	rain 10	Chicago	snow 1	Gibraltar	rain 17	Manchester	fair 6	Rome	shower 21
Algiers	sun 23	Bermuda	fair 26	Cologne	cloudy 11	Glasgow	fair 6	Manila	shower 29	S. Frsco	sun 21
Amsterdam	cloudy 9	Bogota	shower 20	Dakar	fair 30	Hamburg	shower 9	Melbourne	shower 17	Seoul	rain 15
Athens	fair 17	Bombay	fair 33	Dallas	sun 25	Helsinki	cloudy 3	Mexico City	shower 21	Singapore	thund 32
Atlanta	sun 10	Brussels	cloudy 9	Delhi	sun 28	Hong Kong	fair 29	Miami	sun 24	Stockholm	rain 5
B. Aires	fair 24	Budapest	shower 13	Dubai	sun 29	Honolulu	fair 28	Milan	thund 9	Strasbourg	rain 13
B.ham	fair 5	C.hagen	rain 7	Dublin	cloudy 6	Istanbul	fair 15	Montreal	snow 2	Sydney	sun 21
Bangkok	fair 34	Cairo	fair 26	Dubrovnik	shower 18	Jakarta	fair 31	Moscow	fair 3	Tangier	rain 19
Barcelona	shower 17	Cape Town	fair 21	Edinburgh	fair 6	Jersey	cloudy 10	Munich	shower 9	Tel Aviv	sun 29
						Karachi	sun 30	Nairobi	shower 26	Tokyo	rain 18
						Kuwait	sun 28	Naples	shower 18	Toronto	snow 3
						L. Angeles	sun 27	Nassau	sun 26	Vancouver	cloudy 12
						Las Palmas	fair 24	New York	cloudy 8	Venice	thund 12
						Lima	cloudy 22	Nice	shower 17	Vienna	shower 13
						Lisbon	rain 16	Nicosia	sun 24	Warsaw	cloudy 10
						London	sun 8	Oslo	sleet 1	Washington	fair 7
						Lux.bourg	shower 8	Paris	cloudy 10	Wellington	rain 16
						Lyon	rain 13	Perth	sun 34	Winnipeg	cloudy-10
						Madeira	shower 22	Prague	cloudy 11	Zurich	shower 10

FINANCIAL TIMES
COMPANIES & MARKETS

Monday November 11 1996

Dominion nears final decision on $2bn bid

By Jane Martinson in London

Dominion Resources, the US utility, was last night making a final decision on whether to launch a £1.2bn-plus ($2bn) bid for East Midlands Electricity of the UK.

Board members of the Virginia-based group have been locked in meetings since Friday, putting the finishing touches to an offer for the regional electricity company, which could come as soon as this morning. It is thought Dominion might offer up to 650p a share, valuing East Midlands at £1.29bn.

Dominion said last week it would not pay much more than 608p a share – or £1.2bn – for the Nottingham-based company. A 650p offer would be 7 per cent higher and that is understood to be the upper limit of what Dominion executives are considering.

Advisers to the group were keen to stress last night that Dominion could still walk away. However, analysts believe this is unlikely.

With East Midland's share price closing at 593½p on Friday, it is possible Dominion will launch a dawn raid this morning.

If the bid goes ahead, Dominion executives are expected to contact the board of East Midlands for the first time. East Midlands has said it will reject an offer pitched close to 608p. It stressed yesterday that such a price would seriously undervalue the group, which is considered by analysts to have one of the industry's best management teams. It has cut costs in recent years and was the first company in the sector to buy back its shares in an effort to improve the return to shareholders. Analysts have valued the group at between 650p and 750p a share.

Dominion first considered a takeover of East Midlands this summer. But the bid was held up by the misgivings of the US regulator. Last month Dominion convinced the Virginian authorities that its bid for a UK business would not adversely affect its regulated enterprise in the US.

When East Midlands' share price jumped last Wednesday, an emergency board meeting was called in Richmond. A small team was sent to London to work with the group's UK advisers, SBC Warburg and Wasserstein Perella.

The central concerns of the Dominion board, apart from the price, are regulatory and political. Dominion believes its bid has a strong case with the regulator as three other US utilities have been allowed to buy UK electricity companies since privatisation.

However, Offer, the Industry watchdog, could call for the bid to be referred to the Monopolies and Mergers Commission. With CalEnergy, a US power producer, bidding for Northern Electric, there are just three independent regional electricity companies not involved in a takeover battle. There were 12 at privatisation.

YTL to pursue $500m float of power side

By James Kynge and Peter Montagnon in Kuala Lumpur

YTL, the Malaysian construction and power conglomerate, expects to raise $500m from the flotation of its power interests early next year, according to Mr Francis Yeoh, managing director.

The flotation was first publicly proposed in connection with YTL's recent unsuccessful bid for the Hong Kong-based Consolidated Electric Power Asia, controlled by Mr Gordon Wu, but is to proceed regardless of the eventual bid victory by Southern of the US.

Mr Yeoh said the listing would give his company access to the capital markets to fund power projects, whereas rival Cepa would be unlisted after the takeover – and its new parent, Southern, had significant debt on its balance sheet.

Mr Yeoh said YTL would retain a stake of about 60 per cent in its power interests, to be listed under the name YTL Power International. They would be floated free of debt and valued at a ratio of about 18 times prospective 1997 earnings from completed projects.

Undertakings in the pipeline, including a large privatisation project in Zimbabwe and a proposed joint venture in China, would be "thrown in for free", Mr Yeoh said.

Proceeds, which are expected to include $150m to $200m from foreign investors, will be used to repay "non-recourse" debt accumulated by existing projects, and to expand ventures overseas. Non-recourse debt is lending where repayment is dependent solely on the cashflow of a project.

YTL Power International would expand the generating capacity of its proposed YTL-CPI joint venture in China from 250MW to 900MW. YTL is negotiating for a 60 per cent stake in the venture with a subsidiary of the Ministry of Electric Power.

Mr Yeoh said he was confident his bid to take a 51 per cent stake, for $580m, in Zimbabwe's state-owned 920MW Hwange power plant would go ahead despite keen competition from international power companies. He added that Malaysia's prime minister, Dr Mahathir Mohamad, had good relations with Zimbabwe's president Robert Mugabe.

Commenting on the controversy over the price at which YTL sells electricity to Tenaga Nasional, Malaysia's power utility, Mr Yeoh said the tariff was not high compared with other projects in the region, such as the Paiton station in Indonesia. YTL was able to keep its costs down partly because of its access to local currency financing, which eliminated political and exchange-rate risk.

Computers making 'cool movies'

Walt Disney's 60-year grip on animation features may soon be over

The cute working titles for a pair of films due for release in 1998 – *Bugs* and *Ants* – belie the scale of their makers' ambitions and the implications for the US movie industry.

Both full-length computer-generated animated features, they represent a crucial step towards establishing a stable market for this promising new genre, launched a year ago by Pixar's *Toy Story*.

That film, financed and marketed by Walt Disney – but conceived, written, animated and produced in Pixar's computer studios – garnered $350m at the world box office. The home video version was launched last month with record advance orders of 21m copies from US retailers alone.

For Pixar, a small San Francisco Bay company fostered by Mr Steven Jobs, co-founder of Apple Computer, *Bugs* is an opportunity to further Mr Jobs's claim that Pixar is already "the most successful independent animation studio in history".

For Pacific Data Images, a lesser-known Palo Alto-based contemporary of Pixar, *Ants* is a chance to join the pacemakers in the cinema's digital age. As co-founder Mr Carl Rosendahl puts it, the project is the fulfilment of a 16-year-old ambition to "use computers to make cool movies".

On a broader level, 1998 will mark the effective start of a renewed challenge to Disney's 60-year domination of the animated features market.

While the market leader is also financing Pixar's second effort, the money for *Ants* is coming from DreamWorks SKG, which combines the talents of film director Mr Steven Spielberg, film producer Mr Jeffrey Katzenberg and music mastermind David Mr Geffen.

DreamWorks, which recently acquired 40 per cent of PDI, is also spending heavily on conventional animation, and will confront Disney in this format in 1998 with *The Prince of Egypt*.

The challenge appears formidable. As Mr Jobs points out, until *Toy Story* appeared last December, no studio other than Disney had made any $100m box office "blockbuster" animated features in the genre's 60-year history. In the past five years, every non-Disney animated film released in the US has grossed less than $25m.

New image: Steven Jobs and Pixar's computer-generated film Toy Story, which began the challenge in animated features

According to Mr Jobs, Pixar's ultimate share of *Toy Story* profits will be a modest 10-15 per cent. Financial fruits of the partnership are still mounting, and Pixar's net income after nine months of the current year was $21m compared with $3m last time, although Mr Jobs sees more than money coming his way: "We have access to the best talent, secrets and distribution in animation. We are getting a lot money cannot buy."

> 'I think even the thought of us working with someone else would not make Disney very happy'

Mr Rosendahl also prizes the DreamWorks connection. "DreamWorks now has a vested interest both in making a great picture and in making PDI succeed financially," he says. And while Mr Jobs boasts of the benefits of working with Disney, Mr Rosendahl wryly notes that Mr Katzenberg, the former Disney films chief credited with its best successes such as *Pocahontas*, *The Lion King*, *Aladdin* and *Beauty and the Beast*, is now Mr Movies at DreamWorks.

Mr Rosendahl, who aims to float Pacific Data in two or three years, went looking for expansion capital when he determined that its annual growth rate of 20 per cent was not fast enough to protect it from being squeezed between larger competitors and small specialists.

As a result, the company has found itself catapulted into a new dimension. But despite its impressive partner, PDI appears to have hedged its bets. Although it is allowed to make animated features only for DreamWorks, it continues to operate in the low-margin special effects and commercials markets for other customers.

Mr Rosendahl is prepared for upsets with DreamWorks: "I know we'll hit obstacles. They'll want to zig when we want to zag. But at the end of the day we are all going to the same destination."

Mr Jobs, who has collaborated with Disney since 1991, is even more confident. Pixar committed itself to a career in show business when it recently stopped making the commercials on which it had honed its computer animation tools. His main task now is to double film output to two features every four years.

But first, Mr Jobs believes he needs to make amends for past neglect of the financial community and to correct certain "misconceptions" about the company. He has a diary full of appointments with institutions and analysts during a planned visit to London this week.

Because Pixar is perceived as a technology company, he explains, its share price has been buffeted by the high-tech sector's violent swings in the year since the company's initial public offering.

"Our products are all content. We don't sell technology. We are an entertainment company," he insists. Lawrence Levy, his finance director, adds that Pixar, which soaked up some $50m of Mr Jobs's Apple fortune during its early loss-making years, is a long-term business and not "a quarter-to-quarter growth" operation.

Although *Toy Story* revenues from box office, video, two CD-Roms and other products are now flowing smoothly, a lull seems inevitable before *Bugs* makes its entrance. Even then, there are no guarantees of matching *Toy Story's* spectacular performance.

But Mr Jobs, whose contract gives Disney an option on one Pixar film after *Bugs*, confidently expects to negotiate a new, more generous deal with his partner.

He boasts of technology "years ahead of anyone" and a richer research and development budget than all the competition put together. "I think even the thought of us working with someone else would not make Disney very happy."

Christopher Parkes

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INSIDE

Salvesen planning Aggreko flotation

By Motoko Rich in London

Christian Salvesen, the Scottish distribution and power supply group, is to demerge its Aggreko equipment hire business.

According to recent broker estimates, the flotation of Aggreko would value it at about £400m.

A special dividend to shareholders is also planned by the group, which last August declined to recommend a £1.18bn takeover approach from rival distribution group Hays.

Mr Chris Masters, Salvesen's chief executive, refused to confirm the plans, but the group is expected to announce the plans when it presents interim results later this month. Analysts expect pre-tax profits to be up by 6 per cent to £47.7m.

When Salvesen's board unanimously voted to oppose the Hays offer, institutional shareholders said the board had a duty to end three years of underperformance. Analysts fixed on Aggreko, which hires out portable power plants and refrigeration equipment, as the probable centrepiece of efforts to create shareholder value. It was the only one of Salvesen's businesses to raise operating profits in the year to March.

US tractor maker invests $600m in product revamp

By Peter Marsh in London

Case of the US, one of the world's biggest tractor makers, has started a $600m programme to replace its main product families as part of its effort to expand sales by 50 per cent by early next century.

The scheme represents a more than twofold rise in Case's development spending between now and 2000, compared with the past five years.

Mr Jean-Pierre Rosso, Case's chairman and chief executive, said in an interview in London that the move was "not a catch-up" as the company already had very strong products. "This is an acceleration in our product development, based around our plans for growth."

Case plans, over the next four years, to renew the designs of about 10 families of products, including tractors and combine harvesters.

Based in Racine, Wisconsin, Case is hiring several hundred extra engineers and designers in its main technical centres and factories around the world.

These include its main development centre near Chicago. Other design work is based in Case's main European plants in Doncaster, England, and Crepy, France.

Case is keen to expand outside Europe and North America where it currently makes about 90 per cent of its sales.

The new product development programme comes as competition in the $25bn a year farm machinery industry increases with the other main players – John Deere and Agco of the US and New Holland of Italy – all keen to gain market share.

Of Case's revenues of about $5bn this year, $3bn will come from tractors and other farm equipment, with roughly $2bn from construction machinery such as back-hoe loaders – of which Case is the world's biggest supplier.

As part of its growth strategy, Case has this year bought for undisclosed sums four businesses around the world expected to add extra revenues of about $500m a year.

Mr Rosso, who before joining Case in 1994 was a senior executive at Honeywell, the US control equipment group, advocates harnessing advanced technology to help farmers manage their businesses.

A large part of the extra development spending will go on systems for linking up farm machines with space satellites, to enable farmers to calculate the exact co-ordinates of parts of their fields which produce crops at high rates.

Case is also bringing out next year a $100,000 machine called the "Quadtrac" – a tractor built with tracks like a tank but with two on each side for manoeuvrability in muddy terrain.

STATISTICS

COMPANIES IN THIS ISSUE

DLJ plans expansion in London

By Tracy Corrigan in New York

Donaldson, Lufkin & Jenrette, the US investment bank, plans to open a new London headquarters which will quadruple its UK office space as part of its effort to expand its international business.

The firm has signed a 15-year lease for the top seven floors of 99 Bishopsgate in the City, and plans to move in August 1997, after refurbishment. DLJ currently employs 150 staff in London, twice the number it had a year ago, and anticipates doubling in size again in the next two or three years.

But DLJ is a late arrival on the scene: most of the big Wall Street firms made their big push into Europe in the 1980s and have already built up substantial operations.

"We were growing very rapidly in the US and we felt we needed to have leading positions in some major product lines, before building the international side of the business", said Mr John Chalsty, chairman and chief executive officer of DLJ, explaining the delay. In the US, DLJ is now the top underwriter of high-yield bonds, and is among the most active underwriters of common stock and initial public offerings.

But unlike the bigger US firms which came before it, DLJ does not plan to compete for purely domestic business in the European market. Wall Street firms like Morgan Stanley and Merrill Lynch have taken on the likes of Deutsche Bank and Union Bank of Switzerland in their own territory, as they battle to become global financial services companies spanning every significant marketplace. "We don't aspire to be global; we do want to have an international presence," said Mr Chalsty.

Until a year ago, DLJ's London office was essentially a US securities trading and sales operation – in fact, it is the leading distributor of US equities in Europe, according to a Greenwich Associates survey.

In the last year, DLJ has built an emerging markets business in London, with 30 traders in eastern European debt and a proprietary trading desk dealing in the main government bond markets. The firm has also developed a small corporate finance business.

From here, the plan is to expand the corporate finance team, mainly working on US deals for European companies, and concentrating on strong industry niches like cable companies. The firm also plans to enter private banking.

"One of the hallmarks of DLJ is that it evaluates in excruciating detail each and every move that it makes," said Mr Michael Flanagan of Financial Services Analytics. "The company almost always makes the right move," he added.

DLJ has a history of making a late entrance – it is the only top Wall Street firm to have been established after the second world war, in 1959.

"They have a nice history of being late but profitable," said Ms Sallie Krawcheck, an analyst at Sanford C Bernstein.

Kier float to signal pay-day for employees

By Andrew Taylor, Construction Correspondent

Kier Group, Britain's largest unquoted construction company, will today announce plans for a flotation which could provide one of the biggest pay-days for employees since the National Freight Consortium, now NFC, floated in 1989.

Some 900 Kier employees and their families own the group following a buy-out from Hanson, the UK conglomerate, in July 1992. The flotation is expected to value the business at about £50m ($81.5m). Staff could realise roughly £5m between them.

A letter to Kier staff says the flotation price will not be less than 170p a share. This compares with an average purchase price of 16p-17p a share including the effects of a rights issue in 1994.

Employee shareholders are likely to be able to sell between 5 and 10 per cent of their holdings on flotation. Kier directors, who hold 8.5 per cent, will not be selling any.

About a fifth of the enlarged share capital will be sold. This will include some £5.6m of new shares, the proceeds of which will be used to redeem preference shares held by Electra and Hill Samuel. Electra and Hill Samuel also have separate conversion rights which will leave them with a combined stake of about 3.75 per cent.

Mr Colin Busby, Kier's chairman and chief executive, said the flotation would give the group greater flexibility to raise capital for future investment as well as providing greater liquidity for employee shareholders.

Kier, which was bought by Beazer in 1986, briefly became part of Hanson when it acquired Beazer in 1991 after the construction, housebuilding and aggregates group ran into difficulties.

Kier, however, has increased profits in each of the three years since the employee buy-out making it one of the most successful construction companies during the recession.

Pre-tax profits rose by 4 per cent in the 12 months to June 30, from £7m to £7.3m on record sales of £614.6m. Earnings per share rose from 14p to 16p.

Kier is being advised by NatWest Markets.

Greycoat rejects approach

By Christopher Brown-Humes

Greycoat, the property development and investment company, yesterday rejected a takeover approach from Moorfield Estates, a company a quarter of its size by market capitalisation.

It said the all-share proposal made last Thursday was "vague as to value" and lacked a cash alternative.

It also said Moorfield had little experience of prime central London properties and brought few management skills to the company.

Moorfield, with a market capitalisation of about £45m against Greycoat's £185m, is run by Mr Marc Gilbard and Mr Graham Stanley, two former property analysts at Goldman Sachs. Its move comes just ahead of a meeting on Thursday when Greycoat shareholders will vote on a plan to liquidate the company's £500m portfolio.

This scheme has been put forward by UK Active Value, an investment fund run by Mr Brian Myerson, a former Greycoat director, and Mr Julian Treger, who have 10 per cent of Greycoat.

Greycoat said Moorfield has proposed a share exchange with the company "at an unquantified restated asset value". It added it had already considered splitting the group along the lines proposed by Moorfield but concluded that shareholder value would suffer.

Under Moorfield's plan, Greycoat's prime London properties at Embankment Place, Charing Cross, and 123 Buckingham Palace Road and their associated debt would be put into one company. The other would hold the remainder of the assets and debts of the enlarged group.

Any move by Moorfield would almost certainly require substantial additional support from Blackstone, a New York investment bank which owns 8.6 per cent of the company.

Allied shares face squeeze

By Roderick Oram

Shares in Allied Domecq, the drinks and retailing group may come under pressure this week as it reports its year end results.

The shares have risen more than 10 per cent on heavy volume in the past month because some analysts and investors are banking on dramatic restructuring or demerger news from Allied with its results tomorrow.

But they will be disappointed. Sir Christopher Hogg, Allied's chairman since the spring and one of the UK's most respected corporate leaders, is focusing for now on improving the company's performance. He is believed to have rejected the quick fix of a demerger.

Senior executives say Sir Christopher has concentrated his efforts on working with executive board members to improve the quality of their management. He has left them to take the message of rigorous financial analysis and control down the line rather than embark on hands-on management of the group.

The shares will come under further pressure from weak results this week. Pre-tax profits, before the large write-off of Carlsberg Tetley, its brewing joint venture, will be about £570m ($929m), against £645m a year earlier.

This follows continuing destocking by distributors particularly in the US and Europe, the residual impact of the Mexican peso devaluation and trading which has "remained pretty rough," one analyst said.

Globalisation and consolidation

William Lewis on the trend towards further polarisation in the fund management industry

If you're going to San Francisco,
Be sure to wear some flowers in your hair.

Few would argue that when Scott McKenzie sang *San Francisco (Be sure to wear some flowers in your hair)* in 1967, the summer of love, he meant it to have relevance for the fund management industry. But almost 30 years on, two recent *announcements* have forced some UK-based fund managers to take a keen interest in the West Coast city.

Last week Dresdner Bank, Germany's second largest commercial bank, said that control of the investment management arm of Kleinwort Benson, the investment bank it took over last year, was to be transfered to RCM Capital Management, a San Francisco-based subsidiary of Dresdner. As a result of the restructuring Sir Nicholas Redmayne, chairman of Kleinwort Benson Investment Management and deputy chairman of Kleinwort Benson group, is to leave.

RCM, with $26bn under management, was chosen to run Dresdner's new global asset management company with assets in excess of $50bn, following several years of poor performance at KBIM. It has a research-based stock selection, including some quantitative analysis, and an emphasis on growth funds spanning small, medium and large-cap companies.

Dresdner's reorganisation followed the announcement last month by Barclays that the senior management of BZW Barclays Global Investors, the San Francisco-based asset manager it bought for £280m last year, would be taking control of its traditional fund management business. Barclays Global Investors uses quantitative techniques such as indexation and as a result of the reorganisation 11 London-based fund managers were made redundant.

While fund managers at KBIM and Barclays Global Investors can expect to be communicating regularly with their new bosses in San Francisco, Mr Donald Luskin of Barclays Global insists that the real significance of both announcements has little to do with San Francisco. Instead, he argues that both reorganisations should be seen as part of the trend towards globalisation in the fund management industry.

"We have finally reached the point of true globalisation in the fund management industry," Mr Luskin said. "The question now asked is where is the core competency, not what city is it in. This shows the industry is maturing".

Earlier this month the announcement by Invesco, the UK fund management

FUND MANAGEMENT

group, that it had agreed to buy AIM Management Group of the US for $1.6bn confirmed another trend in the fund management industry - *increasing polarisation* between large investment groups and niche companies.

Invesco said it had agreed to pay the privately owned Texas-based AIM $1.1bn in shares and $500m in cash and that the new group, to be known as Amvesco, will have more than $150bn under management.

Over the past three years, the fund management business has been the subject of unprecedented merger activity, and the trend is expected to continue for the next few years. The deals are increasingly cross-border, creating international businesses out of what once were exclusively domestic operations.

Goldman Sachs, the US investment bank, has predicted that within five years there will be 20 to 25 companies with at least $150bn in assets under management as well as numerous small companies which establish themselves as niche operators serving particular needs with specific products.

Several factors appear to be driving the globalisation and consolidation processes.

For example, since 1990 the pace of growth in total assets under management has slowed, pushing some fund management companies towards seeking to acquire the assets of a competitor as the best way to grow. Goldman Sachs also argues that increasing competition between investment management companies to manage the world's pension fund assets is helping create a single market.

The process has been particularly pronounced in the UK, with a string of recent deals. For example, Commerzbank, Germany's third largest bank, bought UK fund manager Jupiter Tyndall in 1995 in a deal valued at £170m, and Paris-based Indosuez's 75 per cent stake in Gartmore was bought in February by National Westminster Bank for £340m. In July Goldman Sachs bought CINMan, the pension fund manager for 500,000 current and former UK coal industry employees.

Last week Mr Simon Robertson, chairman of Kleinwort Benson group, hinted that Dresdner is likely to play a further part in consolidating the industry. "Globalisation is a very important part of it," he said. "Size is also a key. There may be other moves once this restructuring has bedded down. You have got to be very small or very big, Goldman Sachs said, and I agree with that."

Additional reporting by Tracy Corrigan in New York and Andrew Fisher in Frankfurt

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Alliance Tst 4½% Db £2.25
Argos 5.3p
Birmingham Midshires Bldg Scty FRN 1999 £154.10
Brammer 5.25p
British Vita 4p
Coles Myer A$0.10
DRS Data Research 0.25p
DePfa Fin 7⅛% Gtd Bd 2003 £71.25
Dolphin Packaging 2.5p
Eyecare Products 0.57p
First national Bldg Scty 11¾% Perm Int Brg IR£568.75
Do 11¾% Perm Int Brg £587.50
Forth Ports 3¾% Fd Debt £1.875
Glasgow 3½% Irrd £1.75
Do Gas 6¾% Anns £3.375
Do Gas 9% Anns £4.50
Do Water Anns 50p
Do Waterworks Fd Debt 3½% £1.75
Do Waterworks Fd Debt 4% £2.0
GT Japan Inv Tst 1.6p
Hodder Headline 2p
Home Housing Assoc 8¾% Gtd Ln 2037 £4.375
IBC 3.3p
Investors Capital Tst 4% Db £2.0
Mazda Motor FRN 2000 Y24013.0
Mitsui 4.9% Bd 2000 Y490000.0
More Grp 3.6p
NTT Data Comms 4.1% Bd 1999 Y410000.0
Page (Michael) 2p
Pantheon Int Participations 2p
Scottish Eastern Inv Tst 4% Db £2.0
Do 4% Perp Db £2.0
Scottish Mortgage & Tst 4½% Db £2.25
Second Alliance Tst 4½% Db £2.25
Trafford Park Estates 2.55p
Waste Recycling 0.5p
Wolstenholme Rink 9.5p

■ TOMORROW
Arcadian Int 0.12p
Aspen Comms 2.5p
Barclays Jnr Gtd Und FRN $153.39
Beauford 0.25p
Cavendish Wates 0.8p
Christiania Bank Prim Cap Und FRN $303.54
Citic Pacific Fin Gtd FRN 1997 $1590.80
Five Arrows Chile Inv Tst $0.03
Fleming High Inc Inv Tst 1.2p
GT Inc Growth Tst 1.6p
Kingsbury 1.25p
Lawrie 18p
Moss Bros 6.5p
Nova Scotia FRN 1999 $151.12
Ockham 1p
S & U 4p
Taisei 4.05% Nts 1997 Y405000.0
Do 4.8% Nts 1998 Y480000.0
Tibbett & Britten 5.2p
Tokyo-Mitsubishi Int 7¾% Sb Nts 2007 $387500.0

■ WEDNESDAY NOVEMBER 13
AMP 13% Bd 2015 £650.0
Camellia 18p
Coca-Cola Amatil 7¾% Bd 1996 $381.25
Group Tst 0.33p
Hammerson 3.7p
Housing Fin 8¾% Db 2023 £4.3125
Mithras Inv Tst 1.2p
Rugby Estates 0.8p
Sinclair (Wm) 6.1p
Tor Inv Tst 2.94p
Do Inc 9.84p

■ THURSDAY NOVEMBER 14
Abbey National Treasury 7¼% Nts 1996 FFr725
British Sky Broadcasting 3p
Clinton Cards 1.85p
Culver 0.17p
Grampian 1.95p
Japan Development Bank 8⅝% Nts 1996 $431.25
Jerome (S) 1p
Laporte 8.5p
Logica 4.8p
Marsh & McLennan $0.90
MediaKey 0.375p
Parity 1.4p
Throgmorton Dual Tst 1.85p
Whatman 4.5p

■ FRIDAY NOVEMBER 15
Abbott Labs $0.24
Abtrust Pfd Inc Inv Tst 3.25p
Arjo Wiggins Appleton 2.9p
Ash & Lacy 2.7p
BBA 2.1p
Barclays 16% Un Cap Ln 2002/07 £8.0
Bluebird Toys 2.25p
Boot (Henry) 2.1p
Brierley Invs NZ$0.05
Conversion 9¾% 2006 £4.875
Conversion 10% 1996 £5.0
Cash Converters Int A$0.026
City Mortgage Recvbles 1 Mtg Bckd FRN Ser 1996-1 Feb 2023 £47.57
Do No 2 Mtg Bckd FRN Ser 1996-2 Oct 2023 £47.35
Colgate-Palmolive $0.47
Commercial Union 11.45p
Dagenham Motors 2.2p
Delphi 2p
Drive Sec Class A FRN 1996 £157.26
Do Mezzanine FRN 1996 £177.15
EW Fact 0.9p
Euro-Vip Sec Var Rate Nts 2030 Ser B $34348.67
Expamet Int 1.45p
Fairey 2.85p
Fiscal Props 0.72p
GESB 8.35% Gtd Sec Bd 2018 £41.75
HTV 1.4p
Hambros Inv tst 5% Cm Pf 1.75p
Hasbro $0.10
Highlands & Lowlands M$0.05
Hong Kong Inv Tst 1.25p
Industrial Control 2.1p
Inter-American Dev Bank 9¾% Ln 2015 £4.875
Ipeco 1.3p
Ivory & Sime Optimum Inc Tst 2.85p
Jacks (Wm) 1p
Langdons Foods 0.04p
Lloyd Thompson 7p
Mayflower 0.75p
M-R 2.4p
Nationwide Bldg Scty 6⅛% Nts 1999 £61.25
Nihon Doro Kodan 9½% Gtd Bd 2000 $475.0
Pacific Dunlop A$0.03
Pall $0.1225
P & O 13.5p
Perkins Foods 1.75p
Prospect 2 Class A Nts 2005 £1514.48
Do Class B 2007 £1577.32
Do Class C Asset Bckd Cts 2010 £801.23
SIG 2.4p
Sanwa Bank Canada Gtd Fxd/FRN 2005 $1533.33
Sanwa Fin Aruba Gtd Step-Up FRN Nov 2004 $1493.40
Scottish American Inv 4% Irrd Db £2.0
Sharpe & Fisher 1.8p
Sonar 1 Class A Mtg Bckd FRN 2021 £132.23
Do Class B £176.58
Do Class C £197.95
3i Smaller Quoted Co's 0.94p
T & N 3p
Vardon 0.45p
Wassall 2.1p
YKK 3.9% Nts 1999 Y390000.0

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
HTR Japanese Smaller Co's Tst, 3, Finsbury Avenue, E.C., 12.00
BOARD MEETINGS:
Finals:
Carr's Milling
Sidlaw
Interims:
BAA
British Steel
Celebrated Group
Cleveland Tst
EMAP
Prowting
Renold
Smith (James) Estates
Wyndeham Press

■ TOMORROW
COMPANY MEETINGS:
Groupe Chez Gerard, 19, Charlotte Street, W., 10.30
Mucklow (A & J), Chamber of Commerce, Edgbaston, Birmingham, 11.00
Sinclair (Wm), White Hart Hotel, Bailgate, Lincoln, 11.00
Superscape VR, Cromwell House, Bartley Wood Business Park, Hook, Hants., 4.00
Tor Inv Tst, 107, Cheapside, E.C., 12.00
BOARD MEETINGS:
Finals:
Allied Domecq
Capital Radio
Scottish Value Tst
Wardle Storeys
Interims:
Amersham Intl
Business Post
Chamberlin & Hill
DCC
Independent Parts
Marshalls
Sims Food
WT Foods

■ WEDNESDAY NOVEMBER 13
COMPANY MEETINGS:
Adwest, Dorchester Hotel, W., 12.00
Beazer Homes, Assembly Rooms, Bath, 2.30
Domestic & General, 18, St Mary-at-Hill, E.C., 11.30
Hong Kong Inv Tst, Knightsbridge House, 197, Knightsbridge, S.W., 10.30
Logica, Rubens Hotel, Buckingham Palace Road, S.W., 2.30
Regent Inns, Old Cobblers, Hill House, Shoe Lane, E.C., 4.00
Throgmorton Dual Tst, 155, Bishopsgate, E.C., 12.30
Towry Law, Baylis House, Stoke Poges Lane, Slough, Berkshire, 12.00
BOARD MEETINGS:
Finals:
ABI Leisure
Cirqual
Dickie (James)
Fenner Hldgs
Interims:
Borthwicks
Hambros
Land Securities
Volex
Young & Co's Brewery

■ THURSDAY NOVEMBER 14
COMPANY MEETINGS:
BCE Hldgs, 140, Cheetham Hill Road, Manchester, 11.00
Kleinwort High Income Tst, 10, Fenchurch Street, E.C., 10.00
Lyles (S), Cedar Court Hotel, Denbydale Road, Calder Grove, Wakefield, 12.00
Photo-Me Intl, Preston Cross Hotel, Rectory Lane, Little Bookham, 6.00
Tottenham Hotspur, 748, High Road, Tottenham, N., 2.30
BOARD MEETINGS:
Finals:
Action Computers
Westmount Energy
Wyefield
Interims:
Appleby Westward
Bank of Ireland
Oxford Instruments
Portsmouth & Sunderland
PowerGen
Property Partnerships
Quintain Estates & Dev
Scapa
Shanks & McEwan
South West Water

■ FRIDAY NOVEMBER 15
BOARD MEETINGS:
Finals:
British Assets Tst
Majedie Invs
Interims:
Black Arrow
Cox Insurance
Plasmon
Railtrack
Symonds

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

COMPANIES AND FINANCE

Nine-month improvement at Viag

By Andrew Fisher in Frankfurt

Viag, the German conglomerate with interests in energy, packaging, chemicals and telecommunications, said operating profits "improved considerably" in the first nine months of 1996.

It gave no figures, but indicated that the rise for the full year would probably be above the 10 per cent already forecast. Pre-tax profits were unchanged in the January-September period at DM1.82bn ($1.2bn), marking a strong recovery from the first-half decline of 21 per cent to DM1.18bn.

Last year's pre-tax figure was swollen by proceeds of the sale of its 43 per cent stake in the PWA paper company and reductions in other shareholdings. Extraordinary gains were DM570m.

Viag said its pre-tax result for the full year should at least match the 1995 level. Analysts said the nine-month performance was better than expected and the company's shares rose by DM9, or 1.5 per cent, on Friday to close at DM587. But they are still below the levels reached earlier in the year – the 1996 high is DM629 – having fallen after the withdrawal by the RWE utility concern from the telecoms alliance with Viag and British Telecommunications.

Viag said it would push ahead with its plans with BT, especially in the mobile telephone sector. It said the two companies were the only applicants for the E2 mobile telephone licence, Germany's fourth, due to be issued next February. The two partners will invest some DM4bn in telecoms over the next five years.

The company said group turnover in the nine months to September was unchanged at DM32bn. Adjusting for the effect of acquisitions and disposals, however, there was a 2 per cent decline. Investments were little changed at DM1.27bn, mainly in energy and packaging. Viag recently announced the DM1.6bn purchase by its SKW Trostberg chemicals subsidiary of Master Builders technology, a Swiss building chemicals company, from Sandoz.

Viag reported increased turnover in the energy sector through its Bayernwerk electricity and gas division of DM6.96bn against DM6.71bn. The packaging division showed a sales decline from DM9.09bn to DM8.74bn, partly as a result of lower aluminium prices.

The logistics division, including trade, transport and computer retailing, produced flat turnover of DM13.19bn. Steel trading was depressed by lower volume and prices, while Computer 2000 (the personal computer unit) was lifted by the acquisition of AmeriQuest, a US PC distributor.

FMC seeks DM600m via preference issue

By Sarah Althaus in Frankfurt

Fresenius Medical Care, the medical dialysis company, plans to issue 5m new non-voting preference shares this month in an offer expected to total about DM600m ($398m).

The group, the world leader in renal care, would use the funds to strengthen its equity base, according to Dresdner Bank, whose investment banking arm Kleinwort Benson is lead-managing the issue with CS First Boston.

FMC, formed in September after Fresenius, the German medical group, acquired National Medical Care, the dialysis chain of W. R. Grace of the US, took on debts of about $2.3bn from NMC. Fresenius holds 50.3 per cent of FMC, with the remainder in public hands.

The issue, which will be preceded by a capital increase, follows FMC's debut on the Frankfurt stock exchange and the listing of American depositary shares (ADSs) in New York last month.

Book-building, used to determine the interest of institutional investors in advance, will run from November 11–22. The issue price, to be announced on November 25, would be linked to the price of FMC's common shares during book-building, Mr Hansgeorg Hofmann, board member of Dresdner Bank, said.

A green shoe, or over-allotment option, provides for the issue of a further 750,000 shares.

Based on Friday's closing price of FMC's common shares at DM136.10, analysts said the issue was likely to raise about DM600m.

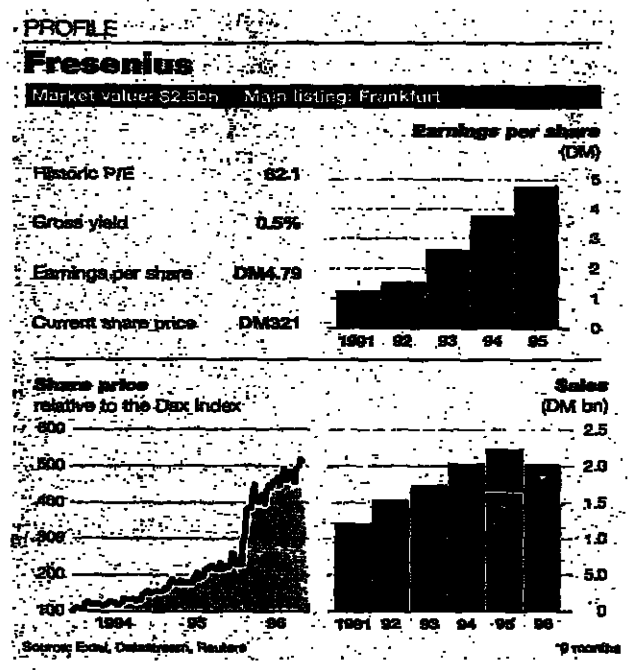
The issue details came as Fresenius announced a provisional 41 per cent increase in net profits to DM86m in the first nine months of 1996 and forecast a "favourable development" in full-year results. The figures do not include the NMC merger.

Group turnover increased 24 per cent to DM2.04bn, boosted by new acquisitions. Pharmaceuticals sales rose 14 per cent and sales of dialysis systems, its core business, climbed 13 per cent, helped by foreign growth.

The intensive care and medicines division increased sales by 10 per cent and turnover in the project planning unit more than doubled from a year earlier.

Pro-forma results at FMC showed a rise in net profits excluding risk provisions from $40m to $43m in the nine months. Including provisions, net profits totalled $10m. Sales grew from $2.1bn to $2.3bn.

Analysts' reactions to the results were mixed. Mr Thomas Schiessle, at Delbrück & Co in Frankfurt, said the trend in FMC's figures was difficult to interpret as the group "has only just been born and has enormous goodwill write-downs and a pile of debt to tackle".



Rise at Skandia fails to please

By Hugh Carnegy in Stockholm

A big rise in earnings from life assurance and savings-linked business helped Skandia, Sweden's largest insurance group, report an 11 per cent increase in profits for the first nine months of 1996.

Pre-tax earnings moved up to SKr2.18bn ($330m) from SKr1.96bn at the same stage last year. This is the last reporting period before Mr Björn Wolrath, chief executive for the past 16 years, steps down at the end of the year.

Net earnings per share rose from SKr12 to SKr14 but the result did not impress investors, and Skandia shares ended Friday down SKr1.50 to SKr186.

A cause for concern was a 13 per cent drop in earnings by Skandia's non-life insurance and reinsurance business. Profits there fell from SKr2.5bn to SKr2.2bn.

A decline in non-life and reinsurance premiums from SKr18.6bn to SKr17.3bn was ascribed mainly to the negative effects of a strengthening this year of the Swedish krona. However, heavy claims left profits from Skandia's core Nordic area operations down from SKr1bn to SKr182m.

On the positive side, there was big growth in life and unit-linked operations, which expanded to account for 42 per cent of operating profits from 30 per cent. Group operating profits rose from SKr2.6bn to SKr2.8bn.

Reflecting the shifting balance in the business, premiums at Skandia's AFS unit, which groups life and unit-linked operations, jumped from SKr19.3bn to SKr25.2bn. The biggest growth was in the US, where unit-linked business grew by 78 per cent, and in the UK, where it rose 27 per cent.

AFS reported operating profits of SKr1.16bn – up from SKr782m last time. Of this, SKr1.05bn was accounted for by unit-linked assurance – which also took the lion's share of new premiums.

Investors are now keen to see how Skandia's strategy unfolds in the light of the changing structural balance after Mr Lars-Eric Petersson, currently head of Nordic operations, takes over as chief executive from Mr Wolrath.

There has been speculation that Skandia might spin-off AFS, which had a return on capital of 26 per cent in the first nine months, but this has been denied by the company.

NEWS DIGEST

Porsche plans to restore dividend

Porsche, the German sports car maker, said holders of its quoted preference shares would receive their first dividend for four years after a jump in net profits from DM2m to DM48m ($32m) in the year to July 31. Preference shareholders will receive DM2.50 a share for each of the three years they were paid no dividend. The previous dividend was DM2.50 for the 1991–92 financial year. Holders of new preference stock, issued in 1994, will be paid DM1.25 for half the 1993–94 fiscal year. For 1995-96, shareholders will also receive DM2.50.

The cost of the back-dated preference dividends will be DM5.9m, with the 1995-96 payment costing DM3.5m (including a resumed DM1.50 payment on the voting shares). Porsche said it would put DM34m into its reserves. The company is controlled by the Porsche and Piëch families who own all the voting stock. Had the company not resumed preference dividends, holders of this class of stock would also have had voting rights under the company's statutes. *Andrew Fisher, Frankfurt*

Nordbanken talks denied

Mr Erik Asbrink, the Swedish finance minister, has flatly denied reports that the government has discussed the possible acquisition of its majority stake in Nordbanken with Skandinaviska Enskilda Banken.

The reports were sparked when the chief executive of Statshypotek, a leading mortgage bank, told analysts on Friday he believed such discussions were under way. *Hugh Carnegy, Stockholm*

Spain to sell gas stake

Spain's centre-right government yesterday gave the go-ahead for the sale of its remaining minority stake in Gas Natural, the country's dominant gas distributor, in the first public offering of the new administration's privatisation programme.

The 3.81 per cent stake, worth some Pta33.8bn ($266m) at recent market prices, is destined for institutional investors, with 40 per cent due to be placed abroad. However, the government holding company Sepi said this proportion might vary depending on the level of demand.

BBV Interactivos will act as co-ordinator for the domestic tranche and SBC Warburg for the international tranche. Gas Natural was formed five years ago through the merger of gas companies based in Barcelona and Madrid. *David White, Madrid*

Alfa considers expansion

Alfa, the Mexican conglomerate, is contemplating an expansion into South America, according to Mr Alfonso González Migoya, the company's chief financial officer. He confirmed last week that Alfa's steel division, Hylsamex, had signed up as an interested party in the privatisation of Sidor, a Venezuelan steel company. The sale of Sidor, which has a production capacity of about 2.2m tonnes, is expected to be completed by March next year.

Mr González Migoya said that Alfa was particularly interested in acquisitions in Colombia and Venezuela, co-signatories with Mexico of the Group of Three trade agreement. Since the Mexican peso devaluation of 1994, Alfa has prospered from a boom in exports, particularly in steel and petrochemicals. "It's important that Alfa is growing in their areas of strength like steel and petrochemicals," said Ms Kerry McHugh, an analyst at Goldman Sachs in New York. "Within Mexico, they cannot easily expand in the commodities that they are currently producing." *Daniel Dombey, Mexico City*

Rogers makes provision

Rogers Communications, Canada's biggest cable TV group, made a special C$68m (US$51m) provision for restructuring in the third quarter and reported a net loss of C$148.8m or 87 cents a share, against a loss of C$23.2m a year earlier. Revenues were C$628m, up 13 per cent. Rogers warned that it will reduce its cable TV operating costs and review capital spending. Management and operations will be streamlined and it warned of coming lay-offs. The company employs around 10,000.

Third-quarter operating income was C$179.8m, up 8 per cent. However depreciation and amortisation were up, total special charges were C$91m and the sale of control of the Toronto Sun newspaper showed a loss of C$23.9m. *Robert Gibbens, Montreal*

Niugini falls to Battle Mountain

By Nikki Tait

Battle Mountain Gold, the US-based mining group, used its muscle on Friday to seize control of the board and management at Niugini Mining, the Australia-based company whose main asset is a 17.5 per cent stake in the large Lihir gold project in Papua New Guinea.

Battle Mountain, which holds a 50.48 per cent interest in NML, said it was installing Mr Dennis O'Connell, its chief financial officer, as chairman of NML, replacing Mr Geoff Loudon.

Mr Loudon will remain on the board, but this is being enlarged from seven directors to nine, with Mr Karl Elers, co-chief executive of Battle Mountain, becoming a permanent appointee. The other new member is Mr Peter Lowing of Allen Arthur Robinson, a law firm in Port Moresby.

Meanwhile, Mr Ian Goudie, NML's chief executive, is being replaced by Mr Joseph Bayliss, a Battle Mountain executive. Mr Goudie and Mr Jeff Quartermaine, the former general manager for finance, had "ceased to be employees", said a statement.

The upheavals come in the wake of abortive negotiations between the two companies over a buy-out by Battle Mountain of the 49.5 per cent of Niugini it does not already own. Last month, Niugini independent directors refused to support Battle Mountain's offered terms which, they said, were pitched at less than A$4 a share and were inadequate.

In a letter to shareholders, Mr Loudon said he believed Lihir – which was discovered by Niugini – was being "drastically undervalued" in the market. It could ultimately produce 1.5m ounces of gold a year, he suggested – more than double initial scheduled production of 600,000 ounces a year.

Since then, there have been rumours that Battle Mountain wanted Niugini to shed its non-Lihir interests, which span Australia, Chile, Thailand and Greece but are relatively small.

Colonial Mutual wins support

By Nikki Tait in Sydney

Colonial Mutual, the Australia-based life assurance and banking group, said on Friday it was confident of winning policyholder support for its planned "demutualisation".

The comments came after formal meetings were held in Australia, New Zealand and Fiji, to vote on the plan – which would see Colonial Mutual transform itself from being a mutual organisation, belonging to its policyholders, into a conventional, shareholder-owned company.

The company would then list its shares on the stock exchange.

At an extraordinary general meeting of Colonial Mutual in Melbourne on Friday, policyholders overwhelmingly endorsed the necessary change in the organisation's articles on a show of hands. A poll will now determine the final result.

The vote followed video-linked meetings in the three countries, to decide on the scheme itself.

The results of these polls – together with an associated meeting for policyholders in the UK on Monday – will be announced next Tuesday. Colonial Mutual has about 538,000 policyholders, half of whom are based in the UK.

After the meeting on Friday, Mr David Adam said the strong positive vote had left him confident that policyholders would back the change.

"When you get virtually a unanimous vote at the meeting, you have got to have a little confidence that the proxies will be going a similar sort of way," he said.

Colonial Mutual is the second big life assurer to demutualise in Australia after National Mutual. AMP, Australia's largest life office, is also said to be considering the possibility.

The successful National Mutual demutualisation may have encouraged support for the Colonial Mutual plan.

National Mutual's shares now stand at about A$1.79, comfortably above the A$1.60 which institutional investors were asked to pay for them when they were floated last month.

Colonial Mutual's policyholders – like those in National Mutual – will be allocated shares, at no charge, in the new corporatised entity.

Fall in land prices hits earnings

By William Dawkins in Tokyo

Japan's property market remained in the doldrums in the first half of this year, according to interim results from the top three property developers, including a forecast of the first ever full-year loss from Mitsui Fudosan, the industry leader.

Mitsui and Sumitomo Realty and Development reported falls in turnover in the six months to September, while Mitsubishi Estate, the second-largest developer, warned that full-year profits would fall because of higher depreciation charges.

At Mitsui, unconsolidated recurring profits – before tax and extraordinary items – fell 35 per cent to Y3.6bn ($32.3m) on sales down 4.9 per cent to Y279.3bn.

It warned that it would make a Y70.3bn loss in the year to next March – after a Y8.4bn profit last year – because of an anticipated Y110bn loss on the sale of property bought at the peak of Japan's asset price bubble in the late 1980s.

The collapse in land prices since then has left Mitsui with a property portfolio which it estimates is worth Y92.3bn, some 54 per cent less than its book value of Y200bn. That is in line with industry estimates of a 50 to 80 per cent decline in land prices since the height of the bubble five years ago.

Mitsubishi Estate, which owns prime commercial property in Tokyo's business district, did rather better than its larger competitor, with a 64.7 per cent increase in recurring profit to Y11.1bn on sales up 10.6 per cent to Y195.3bn.

It said profits had been helped by reduced debt servicing costs, thanks to record low interest rates.

This also enabled Sumitomo to increase recurring profits by 2.2 per cent to Y1bn on sales down 0.7 per cent to Y93.4bn.

Japanese steel groups beat forecasts

By William Dawkins

Japan's steel industry, the world's largest, has showed it has weathered recent hard times better than its European and US competitors.

The top six steel-makers, led by Nippon Steel, the world's biggest producer, reported a combined 7 per cent fall in parent company recurring profits – before tax and extraordinary items – in the six months to September, compared with the same period last year, on a 1 per cent rise in sales.

Average profit margins were 2.7 per cent of sales, well below the 4 to 5 per cent the industry was earning before Japan's economic stagnation began five years ago.

Even so, the six steel-makers' combined decline in earnings was six percentage points less steep than their own forecasts, and better than the profit collapses reported over the same period by their main western competitors.

The companies' results varied widely, from a 3.2 per cent profits decline at Nippon Steel, to a near 70 per cent decline at Nisshin, and a 60.7 per cent increase at top performer NKK.

"The performance may be modest, but no other steel industry in the world has managed to keep profits from collapsing," said Mr Stephen Wolfe, steel analyst at UBS Securities in Tokyo.

Like their competitors, Japan's steel companies had to contend with an average 1 per cent fall in prices, because of the weakness of world steel demand.

They reported a combined 7 per cent decline in tonnage sold, a reflection of the weakness of the Japanese and larger east Asian economies, their main markets.

Japan: major steel companies

Non-consolidated interim business results, (Y bn)

	Sales	% change	Recurring Profit 1996	Recurring Profit 1995	Net Profit 1996	Net Profit 1995
[illegible]	[illegible]	5.?	28.5	29.4	8.8	14.8
NKK	556.4	3.7	9.7	6.0	7.2	33.6
[illegible]	[illegible]	[illegible]	[illegible]	6.2	4.2	0.2
Kobe Steel	551.2	0.2	11.1	13.3	13.6	25.9
[illegible]	471.7	-7.4	2.3	8.2	2.1	2.5
Nisshin Steel	187.1	-4.2	3.0	9.8	2.6	9.1
[illegible]	[illegible]	-1.0	67.9	72.9	33.5	86.1

Source: Companies

To add to the pressure on profits, the cost of imported coal and iron ore rose 15 per cent in the first half.

Some of the increase in raw material costs was offset by a rise in the value of export earnings when translated back into the Japanese currency. But the sector's exports of steel and imports of coal and ore were almost in balance over the period.

Once again, the sector had to extract the bulk of its profits from cost reductions. The scope for staff cuts over the first six months was limited, since employment in the Japanese steel industry had already contracted by almost a quarter to 114,000 in the two years to the start of the current fiscal year.

The focus of cost cutting has now shifted to the renewal of under-productive equipment, such as Sumitomo's modernisation of its Wakayama works. The companies have also diverted cash-flow to repaying debts, in order to reduce finance charges.

The steel-makers were unanimously cautious about Japan's economic prospects in the current half. "The gradual economic recovery is expected to continue, but optimism is not warranted because of such uncertainties as the course of public works investments," said Nippon Steel.

On that basis, three of the groups reduced their full-year profits predictions, though Nippon, NKK and Nisshin kept their forecasts unchanged. The combined forecast for the big six was revised downwards by 9 per cent, to give an 8 per cent increase in recurring profits for the year to next March.

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Richard Lapper

'Europhoria' poised to fade?

It is a measure of the bond market's bullishness about European monetary union when the optimistic comments of the French president about Spain have more impact on prices than a sober economic assessment by the Continent's prospective Central Bank.

Mr Jacques Chirac's remarks last week on the prospects for Spanish membership at the first stage of Emu in 1999 contributed to a surge in Spanish and Italian bond prices. By contrast, the report by the European Monetary Institute, which said most prospective members have some way to go before they meet the Maastricht criteria, was initially ignored.

By last Thursday – after a week of steady price gains – yields on Italian 10-year bonds closed at lower levels than those on UK gilts, leaving the British market – albeit briefly – as the second highest yielding in the European Union after Greece. Gilts, immune to the Emu enthusiasm and vulnerable to inflationary fears, regained some of the lost ground on Friday, with 10-year yields closing marginally lower than those on Italian bonds. Even so on the same day Italian and Spanish 10-year spreads over Germany fell by 2 and 1 basis points to 191 and 163 basis points respectively, reflecting market confidence that they will become founding members of Emu.

Indeed, according to the "Emu calculator", a new analytic tool introduced last month by JP Morgan, the market's expectation that Italy will be a founder Emu member increased by some 4 percentage points over the week. As the graph shows, since the beginning of August market expectations about the probability of Italian Emu membership has jumped from a one in three to a nearly two in three chance, while expectations of UK founder membership have fallen from 44 per cent on August 1 to 34 per cent.

The calculator is based on movements in 10-year currency swap spreads, the most liquid currency swaps maturing beyond 1999, and takes into account the fact that some convergence is due to broader international economic trends and would occur irrespective of Emu.

The question now for fixed income investors is how far government bond yields of the so-called "peripheral" block around Italy have still to fall. With inflation in Italy currently running about 2 per cent higher than in Germany, any further contraction in the yield spread is now dependent on continued progress towards Emu. But even if these "peripheral" countries do become founder members there are limits on how far yields will fall.

Significantly, in this respect, over the last few weeks bond market analysts have begun to examine more closely the issue of sovereign risks after the launch of Emu. Some are suggesting that even though currency and inflation risks will disappear the credit risks of some Emu members will be higher than many in the market are assuming.

Disparities between internal savings rates, rates of external borrowing and the extent of underfunded pension liabilities could contribute to pressures for higher yields on the euro-issues of some borrowers.

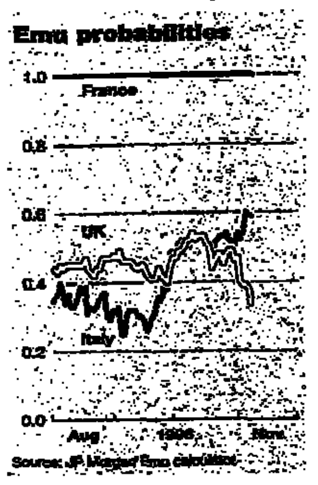
There are also some circumstances in which some countries could choose to opt out of Emu giving rise to "opt out" risk, to which investors will also attach a price. Furthermore the arrangements designed to reinforce fiscal rigour within Emu – such as the so-called no bail-out rule of the Maastricht Treaty – could actually increase credit risks. In a note published earlier this month Merrill Lynch cast doubt on the credibility of the rule, under which EU members agreed that the union would not be liable for the commitments of central governments. Any "debt default by a member state would have systemic effects on the monetary union. The ensuing distress or liquidity problems in the banking system would impose higher risk premia and higher bond yields for the entire monetary block," said the note.

In addition after the inception of monetary union, Emu members' domestic currency debt would effectively become foreign currency debt, partly because individual Emu members will lose their ability to print money, again increasing perceived credit risks for some countries.

Merrill suggests that yield spreads between German and Italian euro-denominated bonds of the same maturity might be within a range of between 25 and 75 basis points. Mr Avinash Persaud, head of currency research at JP Morgan, thinks the spread could be as high as 100 basis points.

As the markets digest these realities, "europhoria" which has sent markets flying higher in recent weeks could begin to fade.

Emu probabilities



Source: JP Morgan Emu calculator

Total return in local currency to 8/11/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.10	0.01	0.06	0.06	0.15	0.12
Month	0.45	0.04	0.26	0.28	0.65	0.52
Year	5.69	0.55	4.03	5.88	10.69	6.72
Bonds 3-5 year						
Week	0.32	-0.41	0.39	0.36	1.05	-0.28
Month	1.35	0.25	0.28	0.67	2.40	-1.11
Year	5.13	3.09	7.64	11.98	23.82	7.29
Bonds 7-10 year						
Week	0.75	-0.57	0.70	0.75	1.81	-0.48
Month	2.24	1.26	0.80	1.09	2.88	-1.48
Year	4.27	6.25	9.88	15.71	35.38	8.50
Equities						
Week	3.3	0.9	1.9	3.1	5.3	-1.8
Month	3.5	-1.5	0.7	3.8	1.3	-2.7
Year	26.1	8.8	25.8	25.8	8.6	15.4

Source: Cash & Bonds - Lehman Brothers. Equities - FT/S&P Actuaries World Index. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Compiled By AFX News

Repsol hit by weak chemicals division

Repsol, the Spanish energy group, is expected to report next week net profit for the nine months to September of between Pta87.4bn ($688m) and Pta93.5bn, compared with Pta92.2bn a year earlier.

Earnings are likely to have suffered from a continued slump in the performance of the company's petrochemical division.

"The most important point to bear in mind when analysing Repsol's 1996 third-quarter performance is that it will be compared with a good third quarter in 1995, particularly in its chemical and production and exploration activities," Beta Bolsa's Lucia Granda said.

Exploration and production earnings will be lifted by the consolidation in the third quarter of the company's 38 per cent stake in the Argentine oil company Astra, which was acquired in June.

■ **Veba**, the German electricity-based conglomerate due to report on Wednesday, is expected to reflect the usual decline in electricity sales in the third quarter, but will show underlying strength in earnings.

Total sales, including the effect of the petrochemical tax, are estimated to have risen by up to 1.3 per cent to DM54.5bn ($36bn).

After benefiting from the long, cold winter in the first quarter, growth in electricity sales will continue to slow in the third, analysts said.

■ **Sandvik**, the Swedish producer of speciality steels and tooling which is one of Europe's biggest engineering companies, is expected to report profit after financial items of between Skr3.4bn ($515m) and Skr3.7bn for the nine months to September, down from Skr4.31bn a year earlier.

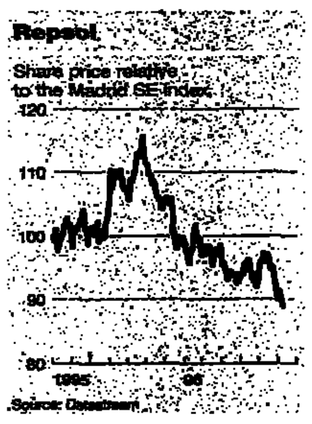
Analysts expect the results to confirm the negative effects of the current tough business environment on Sandvik's earnings.

Profits are expected to have been undermined by the general weakness in the European engineering sector, low steel prices and the stronger krona.

But the outlook over the longer term remains excellent, with the company forecast to show strong earnings growth, when external factors become more favourable in later stages of the business cycle.

Repsol

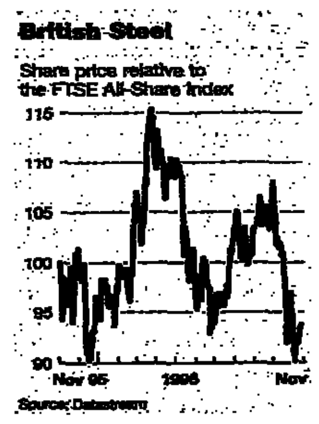
Share price relative to the Madrid SE Index



Source: Datastream

British Steel

Share price relative to the FTSE All-Share Index



Source: Datastream

■ **BASF** is expected to report strong growth in earnings and steady to slightly higher sales in the first nine months.

Earnings will be buoyed by last year's restructuring measures, which led to an extraordinary charge of at least DM300m ($199m) last time. Christiane Dienhart of Bayerische Vereinsbank is forecasting BASF's pre-tax profit will rise 11.1 per cent to DM3.44bn on sales up 1.8 per cent at DM35.8bn.

■ **BT**'s interim results, due on Thursday, will afford another opportunity for analysts to question the company about its plan to merge with MCI of the US. The interim dividend, 7.9p, 6 per cent up on last time, has already been declared as part of the merger announcement. Interest will centre on whether the growth of the market justifies such an increase.

Pre-tax profits of about £685m ($1.1bn) are expected after £200m in redundancy charges and £60m of other costs. Full year pre-tax profits of just over £3bn are anticipated.

■ **British Steel** is expected to report sharply reduced first-half profits on Monday, following a steep fall in steel prices this year. The pre-tax figure could more than halve to £250m ($408m).

■ **PowerGen**, the generating company, will be under pressure to clarify its dividend policy when it reports its interims on Thursday.

Forecasts for pre-exceptional pre-tax profits range from £130m ($212m) to £140m, up about 5 per cent.

This figure is expected to be flattered by a £40m exceptional gain from the disposal of a plant to Eastern Electricity and from the sale of some shares. A dividend of about 8p is forecast, up 23 per cent.

■ **South West Water**, which was saved from the clutches of two predators by the trade and industry secretary two weeks ago, reports interim results on Thursday.

The group unveiled a £15 customer rebate and a 20 per cent rise in the dividend payout immediately after the announcement that neither Severn Trent nor Wessex Water, two rival water utilities, would be allowed to go ahead with a takeover. This rise will bring its interim dividend to 11.8p.

Pre-tax profits, excluding exceptionals, are expected to be about £61m ($99m), although these will be improved by exceptional gains of about £6m from changed lease arrangements.

Along with a number of other water groups South West is expected to pay mainstream corporation tax for the first time this year.

■ **Bank of Ireland** is changing shape, with the merger of its US unit into Royal Bank of Scotland's Citizens Financial and the takeover due to take place next year of Bristol & West building society.

Interim profits to end-September could be 6 per cent higher at the pre-tax level, at I£205m ($334m).

Earnings per share, however, are expected to decline to 24p-25p, as the group will pay a higher tax rate on its US earnings.

INTERNATIONAL EQUITIES By Conner Middelmann

Fast food whets Spanish appetites

Two very dissimilar equity offerings have kept investors' eyes trained on the Spanish market: at one end of the scale, last week's initial public offering for TelePizza, the fast-food company which has taken Spain by storm, and at the other end, the government's forthcoming sale of stock in Telefónica, the national telecommunications operator.

Bookbuilding for TelePizza closed late last week and dealers reported an overwhelmingly positive response. Global co-ordinators BBV and Merrill Lynch declined to comment, but participants said the offer for 4.51m shares – or 45 per cent of the company – has been at least 50 times subscribed and would probably be priced at the top end of the Pta2,000 to Pta2,300 range.

"It's a terrific company with very strong growth rates and impressive management," said Ms Camilla Reeves, a fund manager with Hambros Fund Management. Also, "it has real rarity value – there are very few growth companies on the Spanish stock market which is dominated by banks and utilities," she adds.

Given that 60 per cent of the flotation was targeted at Spanish investors, its success indicates that future share offerings may increasingly be weighted towards domestic rather than international investors, dealers say. Moreover, the strong demand for growth stocks highlighted by the deal is likely to prompt more such issues, despite looming privatisation sales for Telefónica, oil group Repsol and power utility Endesa.

Although Telefónica is not expected to surface before January 1997, banks are busy preparing what is thought to be the last Telefónica privatisation sale. The government is expected to sell most, if not all, of its 21.1 per cent stake in the company, which would raise some $3.5bn at current market prices. Argentaria, BBV, La Caixa and Morgan Stanley are global co-ordinators.

Although the last Telefónica share sale in autumn 1995 got off to an inauspicious start, investors who did participate have cause for celebration. After slipping from the Pta1,637 issue price to Pta1,500 in the weeks following the sale, the shares steamed ahead during 1996, strongly outperforming the Spanish stock market. On Friday they closed at Pta2,655, up 58 per cent in the year to date.

Analysts attribute this dazzling performance to several factors. Investors were heartened by the government's appointment in June of a dynamic and shareholder-friendly senior management team. More importantly, the macro-economic environment of falling interest rates has helped the heavily indebted Telefónica. Other supportive fundamentals include Telefónica's strong international franchise through Tisa, its overseas arm, which has benefited from strong growth in Latin America.

However, some say Telefónica's shares may run out of steam. "Most of the good news is discounted in the share price," says one telecoms analyst. "Given this year's performance, I'd be surprised to see major upside going forward."

Also overshadowing Telefónica is the question of deregulation. Telefónica chairman Mr Juan Villalonga has warned that that any delay in opening Spain's telecoms sector by January 1, 1998 would prompt the EU Commission to bar Telefónica from membership of Unisource, an alliance of smaller European operators. Such a ban could knock 15 to 20 per cent off Telefónica's share price, he warned.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY NOVEMBER 8 1996								THURSDAY NOVEMBER 7 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	212.51	11.8	191.56	149.85	166.38	179.37	5.6	4.24	209.89	188.98	148.28	164.53	178.18	216.14	179.98	183.39
Austria (24)	182.53	4.6	164.53	128.71	142.90	142.82	10.0	1.97	181.82	163.71	128.46	142.53	142.45	195.04	168.36	171.73
Belgium (27)	223.53	6.9	201.49	157.61	175.00	171.17	12.8	3.90	222.87	200.67	157.45	174.71	170.92	223.53	193.77	194.50
Brazil (28)	180.25	30.7	162.48	127.10	141.12	341.64	38.4	1.79	183.18	164.93	129.41	143.59	347.02	189.70	123.97	135.28
Canada (116)	189.67	27.8	170.97	133.74	148.49	182.79	24.7	1.97	188.62	169.83	133.26	147.88	181.86	189.67	143.78	144.36
Denmark (30)	334.85	16.0	301.83	236.11	262.15	263.89	21.2	1.74	334.61	301.27	236.40	262.30	264.24	336.30	276.89	279.76
Finland (24)	221.77	18.6	199.91	156.38	173.62	211.75	24.2	2.37	219.34	197.48	154.96	171.94	209.62	226.64	171.73	222.18
France (93)	208.52	16.2	187.96	147.03	163.25	166.61	21.1	2.92	208.76	187.96	147.48	163.64	166.94	208.76	167.70	178.74
Germany (58)	185.58	13.4	167.28	130.86	145.29	145.29	19.3	1.72	183.69	165.39	129.77	143.99	143.99	185.58	158.00	158.20
Hong Kong (59)	475.09	22.5	428.25	334.99	371.95	471.65	22.6	3.28	474.28	427.03	335.07	371.78	470.82	475.93	354.67	366.38
Indonesia (27)	216.91	–	195.53	152.95	169.82	310.56	–	1.62	214.57	193.20	151.59	168.20	307.17	–	–	–
Ireland (16)	319.32	25.0	287.84	225.16	249.99	272.86	21.4	3.30	317.61	285.97	224.39	248.97	271.12	319.32	247.16	249.82
Italy (58)	78.84	7.0	71.07	55.59	61.73	89.32	2.3	2.32	79.68	71.73	56.28	62.45	90.28	84.53	67.22	72.18
Japan (480)	142.99	–7.7	128.90	100.83	111.95	100.83	–0.2	0.76	141.32	127.24	99.84	110.78	99.84	164.68	137.62	141.03
Malaysia (107)	581.87	18.8	524.50	410.29	455.54	564.35	19.0	1.17	581.00	523.11	410.46	455.43	563.70	587.74	426.77	441.18
Mexico (27)	1205.70	16.4	1086.83	850.16	943.94	10427.36	19.5	1.25	1182.44	1064.64	835.37	926.90	10289.28	1325.65	791.99	853.66
Netherland (19)	313.36	14.9	282.47	220.96	245.33	241.61	21.1	3.03	310.08	279.19	219.07	243.07	239.38	314.85	252.78	252.78
New Zealand (15)	92.22	15.8	83.13	65.02	72.20	69.01	6.7	3.98	91.99	82.83	64.99	72.11	69.21	94.35	75.94	80.30
Norway (35)	272.12	17.7	245.29	191.88	213.04	233.72	17.8	2.17	269.43	242.59	190.35	211.20	232.37	272.12	222.24	223.50
Philippines (22)	196.23	–	176.89	138.37	153.63	257.00	–	0.62	194.02	174.69	137.07	152.08	253.91	–	–	–
Singapore (43)	393.84	–3.3	355.01	277.71	308.34	254.15	–4.3	1.08	390.04	351.18	275.55	305.74	252.09	465.21	361.94	371.09
South Africa (44)	323.41	–16.1	291.52	228.04	253.19	332.86	8.4	2.31	324.03	291.75	228.92	254.00	332.91	437.76	314.20	373.27
Spain (37)	192.94	16.8	173.92	136.04	151.05	185.31	22.1	3.23	192.56	173.38	136.04	150.95	185.42	192.94	148.39	149.27
Sweden (48)	393.70	26.1	354.89	277.61	308.23	384.52	25.6	2.22	394.13	354.88	278.45	308.95	385.24	400.14	294.19	306.90
Switzerland (37)	245.32	4.0	221.13	172.98	192.06	192.98	14.6	1.53	245.32	220.88	173.32	192.31	192.93	254.34	219.29	224.35
Thailand (45)	123.54	–26.6	111.36	87.11	96.72	122.09	–25.8	2.81	122.44	110.24	86.50	95.98	120.94	193.85	112.17	153.20
United Kingdom (213)	259.30	12.5	233.74	182.84	203.01	233.74	6.2	4.04	259.04	233.23	183.01	203.06	233.23	261.17	222.29	225.39
USA (624)	296.58	18.0	267.34	209.13	232.19	296.58	18.0	2.01	296.14	266.63	209.22	232.14	296.14	296.58	241.38	242.34
Americas (795)	271.52	18.6	244.75	191.46	212.57	228.14	18.5	2.00	271.06	244.06	191.50	212.48	227.77	271.52	219.58	220.69
Europe (719)	226.60	12.8	204.26	159.78	177.41	192.97	13.6	2.99	226.08	203.56	159.72	177.22	192.56	226.60	193.02	194.91
Nordic (137)	337.60	22.4	304.31	238.05	264.30	289.05	23.7	2.16	336.95	303.38	238.05	264.13	288.88	339.67	261.13	277.47
Pacific Basin (876)	159.11	–3.7	143.42	112.19	124.57	113.76	2.1	1.23	157.46	141.78	111.24	123.43	112.80	177.01	150.59	151.33
Euro-Pacific (1595)	187.11	4.0	168.66	131.93	146.49	143.62	7.5	2.12	185.93	167.41	131.36	145.75	142.86	190.57	168.34	169.40
North America (740)	290.24	18.5	261.62	204.65	227.23	289.11	18.4	2.01	288.74	260.68	204.70	227.12	288.62	290.24	235.37	238.28
Europe Ex. UK (506)	203.92	13.0	183.81	143.79	159.65	168.23	18.0	2.38	203.30	183.05	143.63	159.36	167.88	203.92	173.04	174.33
Pacific Ex. Japan (396)	301.52	14.0	271.79	212.61	236.06	260.42	11.7	2.96	299.81	269.94	211.81	235.02	259.42	301.53	243.59	249.08
World Ex. US (1810)	189.16	4.8	170.51	133.38	148.09	148.89	8.4	2.11	188.02	169.29	132.83	147.39	148.14	191.55	169.39	170.42
World Ex. UK (2221)	219.35	9.9	197.72	154.67	171.73	186.97	13.2	1.88	218.39	196.63	154.29	171.19	186.29	219.35	188.74	189.33
World Ex. Japan (1954)	265.18	15.8	239.04	186.98	207.61	248.99	16.3	2.39	264.62	238.25	186.95	207.43	248.51	265.18	219.88	221.09
The World Index (2434)	222.80	10.1	200.84	157.10	174.43	191.33	12.5	2.07	221.90	199.80	156.77	173.95	190.68	222.90	191.79	192.49

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 133.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 160.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Indonesia and Philippines June 28 1996 = 214.14 (US $ Index), 204.33 (Pound Sterling) and 164.40 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 8/11/96: Addition: Cognizant Corp (USA) (Medium-Small Cap). Name change: Horsham Corp to Trizec Hahn Corp (Canada).

MARKETS: This Week

After a near 200 point gain in the Dow Jones Industrial Average last week and a 10 basis point decline in long-term bond yields, the US markets would be forgiven for taking a breather as this week gets under way. Provided the dollar has stabilised after last week's downward lurch, though, the underlying conditions seem to remain generally positive.

Today's Veterans Day holiday will close many government and business offices, contributing to a quiet start to the week, but the stock market will be open as usual.

The main event will be notable for the lack of interest it arouses: Wednesday's Federal Open Market Committee meeting. Not long ago, the first post-election meeting was seen as an opportunity for the Fed to raise interest rates, but recent evidence shows the economy slowing sharply of its own accord. Wall Street now expects rates to remain unchanged until well into next year.

The main economic releases this week are expected to confirm this picture. Wednesday's producer price index for October is expected to show a rise of 0.2 per cent, the same as the previous month. Excluding the usually more volatile food and energy components the rise is also expected to be 0.2 per cent. Retail price increases on Thursday are also expected to be in line with the previous month, at 0.3 per cent, and retail sales figures are expected to register a slowdown from September's surge of 0.7 per cent.

Against the generally positive background for bonds, the stock market's post-election rally could yet have further to go.

The UK markets have taken a battering over the last couple of weeks, following the surprise rise in base rates. Investors, instead of being impressed with the government's resolve on fighting inflation, have taken to worrying about how much further rates will have to rise.

Some clues may be gleaned from today's producer prices numbers, from Wednesday's average earnings and unemployment figures or from the retail prices data on Thursday.

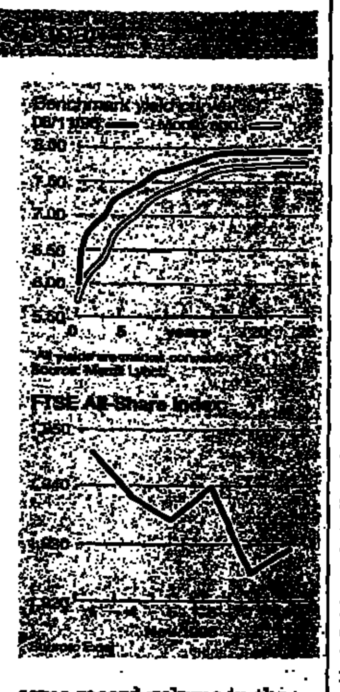
Headline inflation is expected to have moved up to 3 per cent in October, compared with the government's target range of 1 to 2.5 per cent.

"Recent inflation performance in the UK has been disappointing" says Mr John Shepperd, chief economist at Yamaichi International (Europe). "The implication is that the Bank will push for another rate rise before the expected May election – possibly after the release of Q4 GDP in late January."

The change in the investment climate was reinforced by talk last week that institutions were switching money out of equities and into gilts and cash – stories that were given added impetus by some record volume in the index options market on Tuesday.

Corporate news has almost been forgotten in the midst of the rate debate and sterling's strength. The big bid the market had been waiting for turned out to be for a US company.

But the market will have the chance to analyse figures this week from BT, as well as Allied Domecq, BAA, General Accident, Land Securities, PowerGen and Railtrack, among others.



As the German stock market climbed further on Friday, doubts about the sustainability of the advance continued to nag some investors. The renewed rise on Wall Street helped equities, as did the firmer German bond market.

Seeking to reinforce domestic confidence, Mr Heinz-Jörg Platzek of Dresdner Bank said the rise on world stock markets came with an unprecedented level of international monetary stability. With this went low interest rates. "The stock market has an excellent basis and it is not at all right to talk of pure euphoria," he said.

With the impending Deutsche Telekom issue expected to be at least four times over-subscribed, international interest in the German market is likely to increase. Telekom's listing will start next Monday in Germany, New York and Tokyo after the issue price has been set on Sunday.

As Germany's results season continues, Munich Re will today detail its improved performance. It has already announced a rise in the dividend for the fiscal year to June 30. Since the shares of the world's largest reinsurer were included in the German Dax index of 30 blue chips in September, its shares have risen sharply. On Friday, they closed at DM3,805, a rise of DM82.

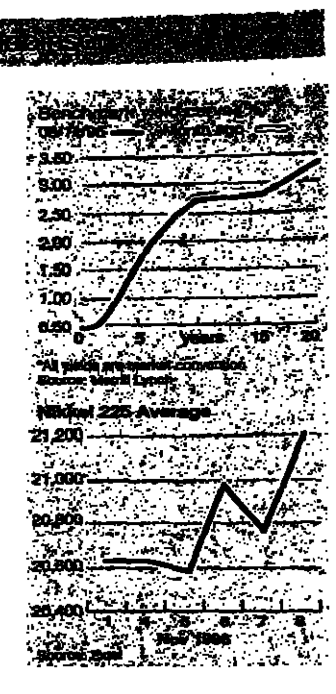
Also due this week are nine-month results from Germany's big banks, which have put on solid gains this year – though the third quarter has seen a slowdown.

Among non-financials, the BASF chemical and Veba energy and telecommunications concerns will also report figures.

Investors this week will focus on the weakening bond market and exchange rate movements, following the dollar's steep fall against the yen last week. The yen's surge was triggered by remarks by Mr Eisuke Sakakibara, a senior official in charge of exchange rate policy, who indicated in a newspaper interview that the one-way yen correction phase was over and the government would no longer lead the yen lower.

The Bank of Japan and the Economic Planning Agency support Mr Sakakibara's view that the strength of the Japanese economy has been underestimated – signalling agreement among Japan's financial authorities on a stronger yen, most likely in the Y110-Y113 range, and a possible increase in the official discount rate, which is currently at 0.5 per cent. Raising short-term rates would boost bond yields and increase the flow of funds to Japan, creating demand for the yen and curbing the dollar's tendency to appreciate against it.

In response, the bond market fell sharply at the end of the week and equities picked up, with the Nikkei 225 up 429.93 points on Friday to close at 21,201.04 – its fourth-largest single-day gain this year.



Government bond futures and cash bonds, on the other hand, plunged for the second consecutive day on Friday amid heavy sales, with the December futures contract on 10-year government bonds closing at 123.96, down 0.79 from Thursday after losing 1.65 over two days.

"Perhaps it's now over for the bond market, particularly as it's becoming very difficult to justify a negative view of the economy," said Mr Jason James of James Capel.

Platinum producers await review

Platinum producers will be looking for some crumbs of comfort when Johnson Matthey, the world's biggest platinum group metals marketing organisation, publishes its interim review of the market tomorrow.

In February the platinum price jumped to $433 an ounce as it followed gold, which raced to a six-year peak. But the excitement soon subsided and last month platinum's price fell below the price of gold for the first time in three years.

Not many years ago, platinum attracted a constant *$100 an ounce premium.* That changed when Russia began *selling platinum and* palladium from its stockpiles *to raise desperately needed* foreign earnings. Both metals are essential in some catalysts, particularly automotive anti-pollution catalysts.

In its market review in May, JM suggested platinum's price would range between $390 and $430 an ounce for the rest of 1996. But this proved over-optimistic: platinum has been well below the bottom end of that range for some weeks and closed in London on Friday at $382.45 an ounce.

JM was also over-confident about the palladium price, which it suggested would be in the $120 to $150 an ounce range. On Friday, palladium *closed at $117.*

Industrial disputes at plat*inum mines in South African* – the world's biggest pro*ducer of the metal* – and lower shipments from Russia to Japan have been unable to rally the market.

RBC Dominion Securities, the Canadian financial services group, suggests in its latest Metals and Minerals Review that platinum's price is likely to average $415 an ounce next year, up from $405 in 1996.

It adds: "With the platinum price close to relative lows, speculators may enter the market and create short-term interest but, based on fundamentals, we expect the average price to remain subdued over the next three years."

● *Also this* week, a *seminar* takes place in London on the *risks and opportunities of* mining in Africa, organised by Mining Journal and the Control Risks Group.

European bourses have been in top form in recent sessions, with Paris and Madrid hitting new peaks and showing every sign of wanting to go higher still.

PARIS

Most local brokers remain committed bulls. The CAC 40 leading share index reached a fresh milestone last week and there was no obvious suggestion on Friday that the upward trend was about to run out of steam.

The stock market is closed today for Armistice Day, so trading in the early part of this week *may be slow.* But the heady combination of results excitement and takeover talk shows no signs of *diminishing.*

Despite a number of denials that rival insurer Axa is about to swoop, UAP remains at the sharp end of bid gossip.

There is also mounting talk that Crédit Lyonnais, the troubled bank, may have found a saviour in Allianz, the German insurer.

Harder corporate news will centre on the latest inflation data, and nine-month sales figures from leading media group Canal Plus. Both are due to emerge tomorrow.

MADRID

Buoyed by a rampant bond market, where yields have fallen sharply on hopes for *Spain's early inclusion in* EMU, shares reached a new all-time best last week.

The market has also been underpinned by talk of corporate activity, where recent rumours have been given a helping hand by news of a merger between Cubiertas and Entrecanales.

The deal, which will create Spain's third biggest construction company, has received a broad seal of approval from local analysts.

Initial findings suggest annual cost savings for the enlarged group run out at roughly a third of combined net profits for 1996.

On the results front, the bigger statements are on Friday, with nine-months numbers coming from retailers Continente and Pryca.

MILAN

Emu euphoria also pushed the Italian market smartly *forward last week.* By Friday there were no obvious signs that the bonds rally was heading for a correction, but equities opted for a more cautious stance.

A strong run for Fiat has been a cornerstone of the recent rise among leading stocks. The shares have rebounded almost 15 per cent in two weeks, owing to hopes for a recovery in Brazil and talk of government incentives to underpin the flagging domestic car market.

However, most brokers' notes have begun to signal that some profits should now be taken, given Fiat's status as Italy's leading exporter and the persistent recent strength of the lira.

HONG KONG

Brokers are still waiting for a note of caution to descend on the share market, which continued to notch up gains last week without seeing any significant consolidation.

Strong performances from new listings helped buoy turnover and the benchmark Hang Seng index closed slightly higher on Friday at 12,751.16.

However, as funds continue to flow in from overseas, any correction is likely to be limited. Brokers believe the high levels of turnover – more than HK$8bn – will continue.

Interest will continue to focus on the property and banking sectors, both of which have been notching up record highs, as well as new issues.

China plays are also being selected by investors as the economic outlook is seen to improve.

Banks continue to issue third party covered warrants on stocks both within and outside the index, so the feeling is that targeted share prices are set to strengthen.

Japanese statements put focus on dollar/yen rate

The future direction of the US dollar against the yen will come under closer scrutiny this week after signals last week that policy-makers may be adopting a different attitude towards the Japanese currency.

The dollar fell sharply last week after Mr Eisuke Sakakibara, an official at the Japanese Ministry of Finance, was reported as saying the yen's decline against the dollar was close to an end, and that the Ministry of Finance was no longer trying to weaken the yen.

Some analysts hailed this as signalling a decisive turning point, after the dollar's slow recovery since last year, when it fell to post-war lows against the yen.

The pound will also be centre of attention this week. Sterling has risen sharply since the summer but weakened at the end of last week as the dollar faltered, and after the Bank of England said the pound's rally was only temporary.

UK inflation data will give some indication on whether inflationary pressures are beginning to build as the UK economy continues to pick up speed.

The Bank of England warned last week that the latest UK interest rate increase was not enough for the government to meet its inflation target of 2.5 per cent in two years' time.

The German government is due to present details this week of how it will trim its expenditure, in the face of last week's announcement that tax revenues are likely to undershoot targets this year and next.

The French franc may come under pressure as the French government prepares to present supplementary budget details this week.

Currency markets will be mulling over other countries' inflation records. Data from France, Spain, Sweden, and the US are due.

The US FOMC meets on Tuesday but no change in interest rates is expected so soon after the elections and following weaker than expected economic data.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
BT (UK)/MCI (US)	Merger	Telecoms	$27bn	Acting in concert
Invesco (UK)	AIM Management Group (US)	Financial services	$1.6bn	Sector globalisation continues
Henkel (Germany)	Loctite (US)	Adhesives	$1.2bn	Formal launch
Gehe (Germany)	Lloyds Chemists (UK)	Retailing	$1bn	Battle renewed
Mayflower (UK)	SCSM (US)	Automotive engineering	$165m	Expansion resumed
More Group (UK)	Wennergren-Williams (Sweden)	Advertising	$129m	Outdoor life
Williams Resources (Canada)	Terra Mining (Sweden)	Mining	$109m	Continues fast growth
Bodycote International (UK)	Bruken (Sweden)	Metal technology	$95m	Bodycote's biggest buy
Royal Bank of Scotland (UK)	Grove Bank (US)	Banking	$87m	RBS renews US expansion
NatWest Bank (UK)	Wheelock NatWest (HK)	Banking	n/a	Buying out partner

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, November 8, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7812.82	4750.00	3154.26	4258.18
Albania	(Lek)	168.582	102.500	68.0656	91.8871
Algeria	(Dinar)	91.2083	55.4529	36.8238	49.7113
Andorra	(French Fr)	8.3775	5.0936	3.3824	4.5662
	(Sp Peseta)	208.523	126.785	84.1922	113.658
Angola	(Readj Kwanza)(1)	332219.3	201984.0	134185.1	181079.3
Antigua	(E Carib $)	4.4407	2.7000	1.7930	2.4204
Argentina	(Peso)	1.6446	1.0000	0.6641	0.8965
Armenia	(Dram)	692.451o	421.020	279.580	377.427
Aruba	(Florin)	2.9440	1.7900	1.1887	1.6047
Australia	(Aus $)	2.0871	1.2690	0.8427	1.1376
Austria	(Schilling)	17.4279	10.5964	7.0366	9.4992
Azerbaijan	(Manat)	6957.08o	4230.00	2808.95	3792.02
Azores	(Port Escudo)	250.570	152.350	101.169	136.576
Bahamas	(Bahama $)	1.6447	1	0.6641	0.8965
Bahrain	(Dinar)	0.6201	0.3770	0.2503	0.3380
Balearic Is	(Sp Peseta)	208.523	126.785	84.1922	113.658
Bangladesh	(Taka)	69.6531	42.3500	28.1227	37.9650
Barbados	(Barb $)	3.3080	2.0113	1.3356	1.8031
Belarus	(Rouble)	38181.7o	23215.0	15416.0	20811.3
Belgium	(Belg Fr)	51.0696	31.0510	20.6196	27.8359
Belize	(B $)	3.2894	2.0000	1.3281	1.7929
Benin	(CFA Fr)	837.750	509.360	338.243	456.620
Bermuda	(Bermudian $)	1.6447	1	0.6641	0.8965
Bhutan	(Ngultrum)	59.0696	35.9150	23.8495	32.1963
Bolivia	(Boliviano)	8.5380	5.1900	3.4464	4.6525
Botswana	(Pula)	5.9380	3.6101	2.3973	3.2363
Brazil	(Real)	1.6995	1.0297	0.6838	0.9231
Brunei	(Brunei $)	2.3031	1.4003	0.9299	1.2553
Bulgaria	(Lev)	413.313	251.300	166.877	225.280
Burkina Faso	(CFA Fr)	837.750	509.360	338.243	456.620
Burma	(Kyat)	9.8404	5.9831	3.9731	5.3636
Burundi	(Burundi Fr)	355.770	216.313	143.644	193.918
Cambodia	(Riel)	3782.81	2300.00	1527.38	2061.86
Cameroon	(CFA Fr)	837.750	509.360	338.243	456.620
Canada	(Canadian $)	2.1889	1.3309	0.8838	1.1931
Canary Is	(Sp Peseta)	208.523	126.785	84.1922	113.658
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

		£ STG	US $	D-MARK	YEN (X 100)
Greece	(Drachma)	391.315	237.925	157.995	213.280
Greenland	(Danish Krone)	9.5303	5.7945	3.8479	5.1945
Grenada	(E Carib $)	4.4407	2.7000	1.7930	2.4204
Guadeloupe	(Local Fr)	8.3775	5.0936	3.3824	4.5662
Guam	(US $)	1.6447	1	0.6641	0.8965
Guatemala	(Quetzal)	9.9791	6.0674	4.0291	5.4392
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

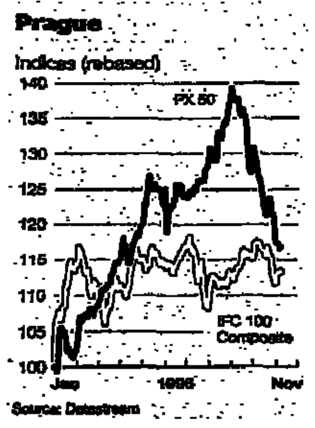
		£ STG	US $	D-MARK	YEN (X 100)
Pakistan	(Pak. Rupee)(3)	65.9195	40.0788	26.6152	35.9300
Panama	(Balboa)	1.6447	1	0.6641	0.8965
Papua New Guinea	(Kina)	2.2048	1.3405	0.8902	1.2017
Paraguay	(Guarani)	3437.42	2090.00	1387.87	1873.60
Peru	(New Sol)	4.2754	2.5995	1.7262	2.3303
Philippines	(Peso)	43.2228	26.2800	17.4514	23.5589
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Abbreviations: (a) Free rate (m) Market rate (o) Official rate [illegible] Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department. London Trading Centre. Enquiries: 0171 634 4365. [illegible]

To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. [illegible] Friday, November 8, 1996

EMERGING MARKETS By Vincent Boland

Banking crisis besets Prague



Source: Datastream

Winter has arrived early on the Prague stock exchange. Since early September, when the extent of the crisis of confidence affecting the Czech banking sector became apparent, share prices have tumbled nearly 15 per cent.

The PX 50 index of leading shares is now hovering around 500. Investors have retreated to the sidelines to wait out the market's gloomiest period since it opened for business in 1993.

While many foreign investors, whose activity drives the market, say the correction may have been overdone on economic and corporate fundamentals, there is little likelihood of any upturn until the government sorts out its banking and regulatory problems. Next weekend's senate election is also being watched closely for signs of an end to political uncertainty.

In many respects, the banking crisis – a series of failures among small banks this year, which peaked in late summer with the collapse of Kreditni Banka and the related emergency rescue of Agrobanka, the country's largest fully private bank – was the last straw for investors on the PSE.

They had seemed prepared to live with the uneasy period of minority government ushered in after the general election in June.

A swelling trade deficit pointed to structural problems in the economy but it was not, objectively, a bad thing.

Even the continuing controversy over the PSE's regulatory and transparency problems did not concern investors who concentrated on the top five Czech stocks, such as SPT Telecom, Komerční Banka and the electricity utility, CEZ, where the issue of minority shareholder protection, or the lack of it, does not arise.

But the banking sector's problems placed these developments in a wider context. "The scales fell from people's eyes," says Mr George Collins, head of asset management at Patria Finance in Prague. "People had it pretty easy here for a while. Now there is a lot more careful analysis and a lot more careful balancing of risk and reward."

Although there is some evidence of foreign selling of Czech shares, there has not been a dash for the exit. Share prices have tumbled because of a lack of buyers rather than under pressure from a wave of selling, with daily turnover of about $30m during October. Third-quarter results from leading companies were generally well-received.

But the wider problems, and uncertainty over growth prospects for 1997, mean "there is no reason to get in now", says Mr Jack Schrantz, senior analyst at Creditanstalt Securities in Prague.

Instead, attention has turned to issues outside the market that will have a direct bearing on the direction of share prices in the medium term.

Immediately ahead is the senate election. Opinion polls suggest that the Civic Democratic party of prime minister Mr Václav Klaus will do well and could have a majority in the new chamber, which may go some way towards offsetting his government's minority in the lower house of parliament. Mr Klaus is having severe problems adapting to the greater influence of the opposition Social Democrats, on whom his government relies for support.

The next crucial test of how that support holds up is in the debate on the 1997 budget, which still has to pass its final reading. And while the senate will have little real power, the election result is important for the clues it will give to how long the current government will be able to survive.

Regulation of the capital markets has become a live issue since June, when the Social Democrats won many votes on the question of law and order in the markets.

Investment funds run by the large banks and other managers have effective control of the country's large group of medium-sized ($100m–$250m) companies, which many analysts view as a key to the future success of the Czech economy.

It is in this sector of the market, affecting perhaps 50 companies, that the thorny issue of minority shareholder protection arises. Managers of these funds often ignore reporting rules, acting as a deterrent to foreign investors seeking greater choice in the PSE.

While some form of securities and exchange commission is likely to be in place by the middle of next year, it will have to win the support of those fund managers.

Most crucial, however, is the need to solve the banking crisis. A tussle is developing between the government and the central bank over completing privatisation of the sector, regarded as essential for its long-term health, and a definite strategy has yet to be unveiled.

Mr Glenn Wellman, managing director and chief investment manager at the $260m Central European Growth Fund, run by Credit Suisse Investment Management in London, says a clear strategy for privatisation is essential. With so much riding on the outcome, "the way that is done might give the market a positive surprise", he concludes.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	8/11/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (447)	156.16	1.48	+0.96	−3.73	−2.30	10.60	+7.19
Latin America							
Argentina (22)	97.61	+1.55	+1.61	−2.52	−2.51	+4.83	+5.21
Brazil (24)	250.28	+2.19	+0.88	+0.44	+0.18	+64.19	+34.49
Chile (16)	181.14	-3.16	−1.72	-12.55	−6.48	−14.52	−7.42
Colombia (13)	177.67	−1.98	−1.10	+1.29	+0.73	+13.43	+8.17
Mexico (27)	80.21	+1.91	+2.44	−5.10	−5.98	+6.61	+8.98
Peru (12)	1081.80	-17.47	−1.59	−88.34	−7.55	+12.85	+1.20
Venezuela (6)	57.20	−1.63	−2.76	−9.30	−13.99	+29.70	+107.96
Latin America (119)	140.94	+1.09	+0.78	−4.76	−3.27	+17.80	+14.46
Europe							
Czech Rep.(14)	96.63	−1.71	−1.73	−7.65	−7.33	+20.33	+26.65
Greece (20)	114.77	−3.39	−2.87	−4.68	−3.84	+16.80	+17.14
Poland (25)	342.30	+13.37	+4.07	−31.22	−8.36	+141.15	+70.17
Portugal (18)	140.97	+3.28	+2.38	+3.22	+2.34	+24.51	+21.05
South Africa (30)	131.34	−4.82	-3.54	−12.14	−8.46	−22.04	-14.37
Turkey (27)	117.23	−1.39	-1.17	−1.88	−1.58	+34.43	+41.59
Europe (134)	117.23	−2.48	−2.07	−7.83	−6.25	−4.04	−3.33
Asia							
China (26)	42.98	−0.66	−1.51	−2.82	−6.16	+2.60	+6.45
Indonesia (30)	149.54	+8.36	+5.92	+9.07	+6.46	+10.89	+7.88
Korea (23)	94.21	−0.62	−0.65	−7.16	−7.06	−42.70	-31.19
Malaysia (24)	266.59	+1.24	+0.47	+4.09	+1.56	+39.22	+17.25
Pakistan (13)	69.89	+1.26	+1.83	+1.42	+2.08	-3.70	−5.03
Philippines (18)	304.34	+12.70	+4.35	−3.90	−1.27	+45.17	+17.43
Taiwan (31)	177.40	+3.26	+1.87	−2.68	−1.49	+46.58	+35.60
Thailand (28)	187.15	−13.75	+7.93	+7.00	+3.88	−64.74	−25.70
Asia (193)	215.35	−5.26	−2.50	+1.07	+0.50	+12.30	+6.06

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

INTERNATIONAL BONDS By Samer Iskandar

Climate comes right for New Zealand issues

Primary market activity this year in New Zealand dollar-denominated eurobonds has reached all-time highs. Some NZ$5bn of new bonds have been issued since the start of the year, compared with NZ$260m last year and NZ$100m in 1994.

More than 80 per cent of the total raised since the beginning of the 1990s has been issued in the past 10 months alone. This surge in activity has been spurred by a favourable market environment, with subdued inflation, an appreciating currency, healthy government finances and a generous yield premium over bonds of other "dollar-bloc" countries – such as Canada and Australia.

"The turning point came when the New Zealand yield curve climbed above the Australian curve," said Mr Greg Nottle, director of bond origination at Hambros Bank in London.

This made bonds denominated in New Zealand dollars more attractive than the neighbouring market in relative terms, which was immediately translated into higher investor appetite.

"Demand came from both institutional and retail investors," said Mr Robert Edge, head of debt capital markets at CIBC Wood Gundy in London.

"Institutions were attracted by performance considerations [including currency gains], while retail investors were drawn by more 'optical' reasons" – such as the high level of nominal yields, and the fact that the market has been one of the best performers worldwide in the past six months, along with Canada and Italy.

Demand was initially concentrated in shorter maturities, due to an inverted yield curve – shorter-term yields were higher than longer-term ones. The premium over Australian dollar bond yields, however, extended to three-year maturities during the first quarter of the year, which led to the issuance boom in the spring.

While high yields are a boon to investors, they are usually a strong deterrent to borrowers. However, this was not the case in the New Zealand market, where a technical anomaly allowed issuance at prices that suited both sellers and buyers of bonds.

This anomaly occurred on the swap market, and was due to a squeeze on the benchmark government bond maturing in 1998.

Because this bond became expensive, eurobonds issued with the same maturity could be offered very cheaply in relative terms, while the high level of swap spreads allowed issuers to convert the funds back into their home currency at an attractive final cost.

"Market conditions were good for both borrowers and investors," said Mr Gerry Moes, director of eurobond syndication at Hambros. "As the yield curve shifted downwards, swap spreads widened substantially."

Swap spreads on two-year maturities reached their peak last month, allowing UBS, the triple-A rated Swiss bank, to raise financing at a cost well below Libor while offering investors a yield premium of 35 basis points over the benchmark.

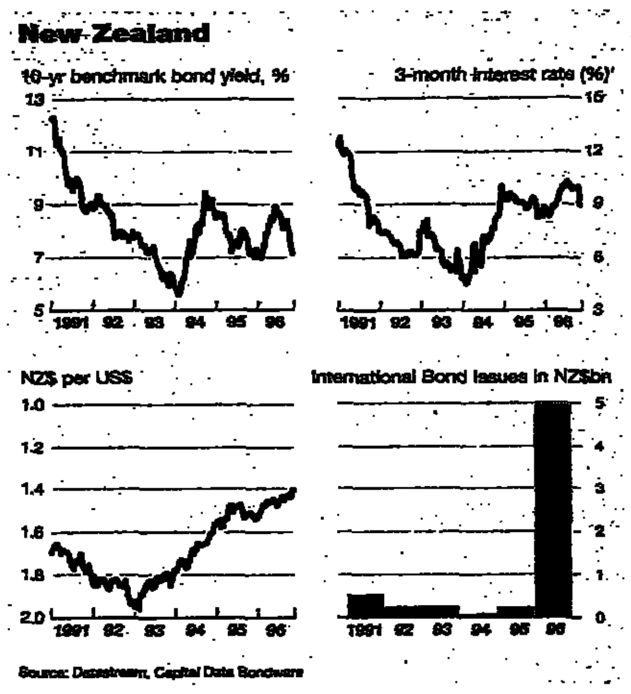
Yields were also very attractive in absolute terms, and some investors managed to lock-in coupons of up to 9¼ per cent on three-year paper during the interest rate peak in June. But the subsequent rally gradually brought returns on new paper down to the 7–7¼ per cent range.

Looking forward, observers believe 1997 could also be very active, although few expect a repeat of this year's exceptional market conditions.

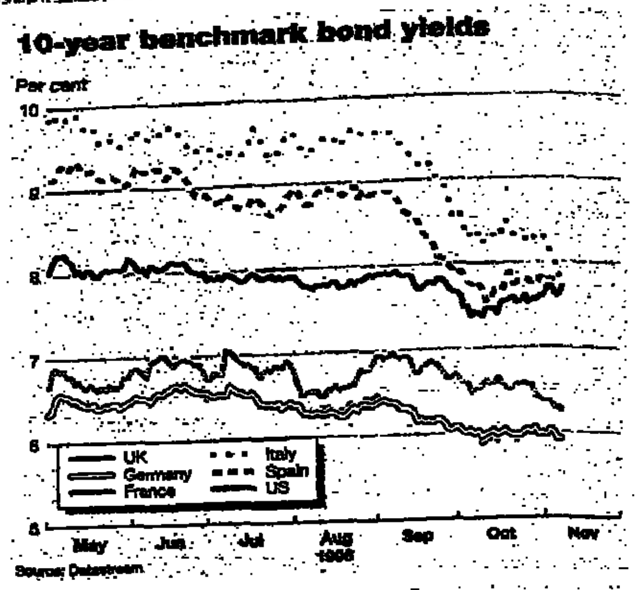
A recent correction in swap spreads has reduced the attractiveness of issuing two-year bonds, and difficulties in forming a new coalition government after last month's election are weighing on investor sentiment.

Furthermore, the currency's appreciation is unlikely to continue at its current pace, and the sharp rally has made available yields less attractive.

"As interest rates fall, investors might feel they are not being paid enough to assume the currency risk," said Mr Edge at CIBC Wood Gundy.



Source: Datastream, Capital Data Bondware



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.75[1]	7.50	6.00[2]
Overnight	5.13	0.47	3.00	3.28	7.75	6.06
Three month	5.16	0.35	3.08	3.35	7.44	6.87
One year	5.46	0.62	3.25	3.54	6.87	6.82
Five year	6.04	1.66	4.68	4.86	6.98	7.31
Ten year	6.27	2.95	5.92	5.90	7.81	7.66

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Banco BCN Barclays(a)	50	Nov 2004	(a1)§	99.883R	8.670	+275(M 3yr)	BZW
NAT, 1996-A, Class A1(b)★‡	350	Aug 1997	(b1)	100.00	-	-	Lehman Brothers
NAT, 1996-A, Class A2(h)★	340	Jul 1998	5.83	99.9784	-	-	Lehman Brothers
NAT, 1996-A, Class A3(h)★	220	Jun 1999	5.90	99.9131	-	-	Lehman Brothers
NAT, 1996-A, Class A4(h)★	120.1	Jun 2000	6.10	99.9736	-	-	Lehman Brothers
Fed Home Loan Mtg Corp(j)	500	Nov 2001	6.55§	100.00R	6.550	+52(6¼%-01)	Fuji/Merrill/Salomon
Fed Home Loan Mtg Corp(k)	250	Nov 1999	6.25§	100.00R	6.250	-	Goldman Sachs Intl
Crédit Local de France	100	Dec 2001	6.125	99.75R	6.185	+11(6½Oct01)	BIL/Generale Bank
GECC(m)	100	Nov 2001	6.25	100.25R	6.190	+8(6¼%-01)	SBC Warburg
Korea Development Bank(l)	500	Nov 2003	6.625§	99.528R	6.71	+49(l)	Merrill/JP Morgan
Strategic Money Mgmt(p)‡	467	May 1999	(p1)	100.00	-	-	JP Morgan
Lehman Brothers Hldgs(q)‡	100	Nov 2000	(q1)	99.80R	-	-	Lehman Brothers Intl
Sparebanken Vest(r)‡	50	Dec 2006	(r1)	99.50R	-	-	Chase Manhattan Intl
SBN Bank(t)‡	50	Dec 2004	(t1)	99.35R	-	-	Morgan Stanley Intl
Banco Bradesco	50	Nov 1999	7.80§	99.947R	7.820	+190(5⅞Nov99)	ING Barings
Bayerische Vereinsbank	200	Dec 1999	6.00	100.00R	6.000	+5(5⅞%Nov99)	ABN Amro Hoare Govett
LB Rheinland-Pfalz(f)★	90	Nov 2000	5.87§	100.00	-	-	IBJ/New Japan Secs
Merrill Lynch & Co(x)‡	70	Oct 2003	(x1)	99.80R	-	-	Merrill Lynch Intl
D-MARKS							
VW Car Lease No 2, T1(b)‡	465	Feb 2000	(b1)	100.00R	-	-	CSFB-Effectenbank
YEN							
DePfa Finance★	25bn	Dec 2002	2.00	100.15	1.973	-	Daiwa Europe
NTT Mobile Comms★	10bn	Nov 2002	2.25§	100.00	2.250	-	Fuji Intl Finance
Sumitomo Realty & Dev(s)★	10bn	Jan 2004	2.65	100.275R	-	-	Nikko Europe
Sumitomo Realty & Dev(A)★	10bn	Nov 2002	2.35	100.20	-	-	Norinchukin Intl
Sumitomo Realty & Dev(B)★	10bn	Nov 2001	2.10	101.875	-	-	Daiwa Europe
SWISS FRANCS							
Republic of Argentina	200	Dec 2003	7.00	102.25	6.588	-	Bqe Paribas/Deutsche
LW Restenbank	100	Dec 2003	3.75	102.40	3.360	-	del Gottardo/von Ernst
DSL Bank	150	Jan 2002	3.25	101.55	2.912	-	Credit Suisse
GUILDERS							
Venezuela Synthetic(e,l)	125	Dec 2001	9.00	100.00	9.00	+410(8¾%-01)	ING Barings
Wolters Kluwer	400	Dec 2003	5.875	99.90R	5.893	+40(l)	ING Barings
FRENCH FRANCS							
CCDQ	1bn	Dec 2002	5.50	99.95R	5.510	+28(8½%-02)	BNP
Halifax Building Society	2bn	Dec 2003	5.50	99.854R	5.561	+15(l)	Crédit Agricole
European Investment Bank‡	1.5bn	Dec 2006	(u)	100.00R	-	-	Société Générale
KfW International Finance‡	1.5bn	Dec 2006	(C)	100.00R	-	-	CDC
STERLING							
Friends Provident Finance(c)	215	undated	9.125	99.269R	9.240	+135(7½%-06)	Merrill/SBC Warburg
Irish Permanent Treasury‡	150	Nov 1999	(d)	99.969R	-	-	Merrill Lynch Intl
LB Schleswig Holstein(o)	100	Dec 2006	8.00	99.451R	8.085	+30(7½%-06)	SBC Warburg
Anglian Water(n)	150	Nov 2006	8.25	99.789R	8.285	+52(7½%-06)	BZW/JP Morgan
Salomon(o1)‡	150	Nov 2001	(o1)	99.584R	-	-	Salomon Brothers Intl
Woolwich Building Society(y)	150	undated	9.25	99.394R	9.313	+125(8%-2021)	CSFB/HSBC Markets
LUXEMBOURG FRANCS							
Eurofima	3bn	Dec 2004	5.75	102.50	5.358	-	Crédit Européen-BBL
De NIB(l)	3bn	Dec 2006	(B)	102.75	6.07	-	Crédit Européen-BBL
ITALIAN LIRE							
World Bank(l)	800bn	Dec 2006	zero	48.185	-	-	BCI/JP Morgan
United Mexican States‡	500bn	Nov 2001	(v)	99.60R	-	-	Deutsche Morgan G'fell
Crediop Overseas Bank‡	300bn	Dec 2001	(w)	99.90R	-	-	San Paolo, Turin
Lehman Brothers Holdings	150bn	Dec 2001	(z)	99.75R	-	-	Credito/Lehman Bros
CANADIAN DOLLARS							
CCDQ	100	Dec 2002	5.75	99.40R	5.872	+49(7%Sep01)	TM/Toronto Dominion
NEW ZEALAND DOLLARS							
Walt Disney Co	100	Nov 1999	7.25	101.275	6.768	-	Hambros Bank
Commerzbank	100	Nov 1999	7.25	101.35	6.738	-	Toronto-Dominion Bank
World Bank	100	Dec 1997	7.25	100.755	6.446	-	CIBC/Hambros Bank
Canadian Wheat Board	100	Nov 1997	7.50	100.985	6.451	-	Toronto Dominion Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ΦWith equity warrants. ★Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. a) Callable & putable on 18/11/99 & 01 at par. a1) 8⅝% to 18/11/99, then 8¾% to 01, then 6⅞%. b) Amortises monthly. Average life: 14 mths. b1) 1-mth Libor +7bp. b2) Tranche 2: DM35m, 1-mth Libor +30bp, parR, amortises after Tch 1, av life 34 mths. c) Callable on 25/11/06 and every 5 yrs at par. If not called coupon is reset at the higher of the current coupon or 5yr gilts +235bp. d) 3-mth Libor +5bp. e) Underlying: Republic of Venezuela DCB due Dec 07. f) Callable on 6/12/01 at 68.06%. Includes L300bn increase at 45⅞%. g) 5¾% to 29/12/01, then 6¾% to 29/12/04, then 8½%. h) Norwest Auto Trust. Monthly coupons. Expected maturities. h1) 5-mth Libor −7bp. h2) Class B: $34.6m, 6.30%, 99.8862, 15/5/03. i) Over interpolated yield. j) Callable from 13/11/98 at par. k) Callable from 12/11/97 at par. l) Long 1st coupon. m) $250m launched 31/10/96 was increased to $350m. n) Standard water ind restructuring event risk. o) Callable from Nov 99 at par. o1) 3-mth Libor +50bp. p) Collateralised by an equity portfolio. Six tranches: $120m, DM160m, Fl 60m, SFr127m, £37m, C$27m (based to BA's). p1) 3-mth Libor +6¾bp. q) Fungible with $250m. Plus 15 days accrued. q1) 3-mth Libor +37½bp. r) Callable from Dec 01 at par. r1) 3-mth Libor +70bp to Dec 01, then +145bp. s) Short 1st coupon. t) Callable from Nov 01 at par. t1) 3-mth Libor +75bp to Nov 01, then +225bp. u) Tec-10 -142bp; min 4½%, max 7½%. v) 3-mth Libor +200bp. w) 6-mth Libor flat. x) Fungible with $180m. Plus 67 days accrued. x1) 3-mth Libor +15bp. y) Callable on 27/11/21 and every 5 yrs at par. If not called coupon is reset at 235bp over the then 5yr gilt. z) 3-mth Libor +37½bp. A) Short 1st & 2nd coupons. B) Short 1st & last coupons. C) Tec-10 -140bp. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

[illegible]

† Rates for Nov 7. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

-0.0009	178 - 188	2.5220	2.5164	2.5212	-1.4	2.5265	-1.3	2.5478	-1.2
-0.0074	085 - 100	1.4120	1.4080	1.4148	-4.7	1.4191	-2.8	1.4506	-2.9
+0.02	300 - 300	26.2320	26.2290	-	-	-	-	-	-
-	503 - 507	-	-	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1
-0.0022	998 - 008	1.4040	1.3985	1.3982	1.8	1.3936	1.9	1.3723	2.0
+0.0085	065 - 115	4.7125	4.6845	4.7497	-10.4	4.8247	-9.8	5.1395	-9.1
+0.5	500 - 000	830.800	828.480	-	-	-	-	-	-
+0.017	920 - 420	27.5520	27.4905	27.5171	0.0	27.5173	0.0	-	-
+0.013	580 - 680	25.4800	25.4470	25.553	-4.2	25.7205	-4.0	26.358	-3.5

† SDR rate per $ for Nov 7. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 7: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

[illegible]

■ $ LIBOR FT London

[illegible]

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.

Mid rates are shown for the domestic Money Rates, US $ CDs, ECU & SDR Linked Deposits (Dp).

EURO CURRENCY INTEREST RATES

Nov 8	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	$6\frac{13}{16}$ - $6\frac{7}{8}$	$5\frac{13}{16}$ - $6\frac{23}{32}$	$6\frac{25}{32}$ - $6\frac{7}{8}$	$6\frac{13}{16}$ - $6\frac{25}{32}$	$6\frac{11}{16}$ - $6\frac{5}{8}$	$6\frac{15}{32}$ - $6\frac{13}{32}$
Spanish Peseta	$6\frac{15}{16}$ - $6\frac{13}{16}$	$6\frac{7}{8}$ - $6\frac{23}{32}$	$6\frac{17}{32}$ - $6\frac{13}{16}$	$6\frac{27}{32}$ - $6\frac{11}{16}$	$6\frac{11}{16}$ - $6\frac{9}{16}$	$6\frac{15}{32}$ - $6\frac{13}{32}$
Sterling	$6\frac{1}{16}$ - $5\frac{15}{16}$	$6\frac{1}{16}$ - $5\frac{15}{16}$	$6\frac{3}{32}$ - $6\frac{1}{32}$	$6\frac{15}{32}$ - $6\frac{3}{16}$	$6\frac{1}{2}$ - $6\frac{13}{32}$	$6\frac{7}{8}$ - $6\frac{3}{4}$
Swiss Franc	$1\frac{11}{16}$ - $1\frac{1}{2}$	$1\frac{11}{16}$ - $1\frac{7}{16}$	$1\frac{3}{4}$ - $1\frac{5}{8}$	$1\frac{13}{16}$ - $1\frac{13}{16}$	2 - $1\frac{7}{8}$	$2\frac{1}{8}$ - 2
Can. Dollar	$3\frac{1}{16}$ - $2\frac{7}{8}$	3 - $2\frac{13}{16}$	3 - $2\frac{7}{8}$	$3\frac{1}{16}$ - $2\frac{15}{16}$	$3\frac{1}{8}$ - 3	$3\frac{7}{16}$ - $3\frac{5}{16}$
US Dollar	$5\frac{3}{8}$ - $5\frac{1}{8}$	$5\frac{3}{8}$ - $5\frac{1}{4}$	$5\frac{5}{16}$ - $5\frac{7}{32}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{17}{32}$ - $5\frac{7}{16}$	$5\frac{27}{32}$ - $5\frac{23}{32}$
Italian Lira	$8\frac{1}{8}$ - $7\frac{1}{2}$	$7\frac{3}{4}$ - $7\frac{5}{8}$	$7\frac{25}{32}$ - $7\frac{23}{32}$	$7\frac{13}{16}$ - $7\frac{7}{16}$	$7\frac{3}{32}$ - $7\frac{1}{32}$	$6\frac{31}{32}$ - $6\frac{27}{32}$
Yen	$\frac{9}{16}$ - $\frac{7}{16}$	$\frac{1}{2}$ - $\frac{3}{8}$	$\frac{1}{2}$ - $\frac{3}{8}$	$\frac{7}{16}$ - $\frac{11}{32}$	$\frac{19}{32}$ - $\frac{15}{32}$	$\frac{3}{4}$ - $\frac{5}{8}$
Asian $Sing	$3\frac{1}{2}$ - $3\frac{3}{8}$	$3\frac{7}{16}$ - $3\frac{5}{16}$	$3\frac{7}{16}$ - $3\frac{5}{16}$	$3\frac{3}{8}$ - $3\frac{1}{4}$	$3\frac{7}{16}$ - $3\frac{5}{16}$	$3\frac{1}{2}$ - $3\frac{3}{8}$

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.48	94.48	-	94.49	94.47	53,300	457,425
Mar	94.47	94.45	-0.01	94.49	94.43	89,636	371,137
Jun	94.37	94.35	-0.01	94.38	94.32	78,449	293,874

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.48	95.00	-0.01	95.01	94.99	120	3,605
Mar	94.47	94.94	-0.02	94.96	94.93	101	2,628
Jun	94.37	94.83	-0.02	-	94.82	13	1,476

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ Pound in New York

[illegible]

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 6 per cent from October 30, 1996

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

	Nov 8	Nov 1		Nov 8	Nov 1
Bills on offer	£200m	£200m	Top accepted rate	5.9363%	5.8861%
Total of applications	£903m	£1099m	Ave. rate of discount	5.9068%	5.8582%
Total allocated	£200m	£200m	Average yield	5.9851%	5.9405%
Min. accepted bid	£98.520	£98.530	Offer at next tender	£200m	£200m
Allotment at min. level	6%	27%	Min. accept. bid 93 days	-	-

BANK RETURN

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	●Rea Brothers	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	5.75
●Henry Ansbacher	6.00	Financial & Gen Bank	7.00	●Singer & Friedlander	6.00
Bank of Baroda	6.00	●Robert Fleming & Co	6.00	●Smith & Williamson Secs	7.00
Banco Bilbao Vizcaya	6.00	Girobank	5.75	Scottish Widows Bank	6.00
Bank of Cyprus	6.00	●Guinness Mahon	6.00	TSB	6.00
Bank of Ireland	5.75	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of India	6.00	●Hambros Bank	6.00	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Barclays Bank	6.00	●Hill Samuel	5.75	Whiteaway Laidlaw	6.00
Brit Bk of Mid East	6.00	C. Hoare & Co	6.00	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	6.00	Hongkong & Shanghai	6.00		
Citibank NA	6.00	Julian Hodge Bank	6.00	● Members of London Investment Banking Association	
Clydesdale Bank	6.00	●Leopold Joseph & Sons	6.00		
The Co-operative Bank	6.00	Lloyds Bank	6.00	* In administration	
Coutts & Co	6.00	Midland Bank	5.75		
Credit Lyonnais	6.00	*Mount Credit Corp	6.25		

FT GOLD MINES INDEX

	Nov 8	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1878.22	-1.6	50.81	100.00	1.58	–	2520.73	1831.02
■ Regional Indices								
Africa (13)	2402.00	-4.0	12.96	25.65	3.19	35.10	3553.86	2332.70
Australasia (6)	2061.02	-13.0	5.61	11.11	2.70	20.53	2927.34	2005.75
North America (12)	1708.00	+1.4	31.94	63.23	0.75	64.60	2186.39	1596.25

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
3	F.P.	7.67	4	4	†Beaufort	4		-	-	-	45.7
§3	F.P.	7.55	$4\frac{1}{4}$	4	†Beechcroft	4		-	-	-	13.2
§157	F.P.	38.1	$177\frac{1}{2}$	$172\frac{1}{2}$	Brands Hatch	$174\frac{1}{2}$	-3	W3.5	1.9	2.5	17.6
§130	F.P.	37.5	$162\frac{1}{2}$	130	Britt Allcroft	$159\frac{1}{2}$		L1.6	3.0	1.3	28.2
§135	F.P.	48.0	$164\frac{1}{2}$	$152\frac{1}{2}$	Charles Taylor	$164\frac{1}{2}$		L4.2	0.3	3.2	52.3
3	F.P.	7.02	$4\frac{1}{2}$	4	†Corp Exec Search	$4\frac{1}{2}$		-	-	-	-
	F.P.	10.2	$162\frac{1}{2}$	$155\frac{1}{2}$	†Deep Sea Leisure	$162\frac{1}{2}$		-	-	-	-
100	F.P.	91.5	$113\frac{1}{2}$	$81\frac{1}{2}$	†Geo Inter Med	$91\frac{1}{2}$	+1	-	-	-	-
§100	F.P.	24.9	$99\frac{1}{2}$	99	Hlthcare Reform	$99\frac{1}{2}$		-	-	-	-
	F.P.	11.0	$132\frac{1}{2}$	$124\frac{1}{2}$	†Jardinerie Ints	$124\frac{1}{2}$		-	-	-	-
§285	F.P.	138.4	310	$292\frac{1}{2}$	John D Sports	$297\frac{1}{2}$	-2	L4.3	2.5	1.8	28.0
72	F.P.	27.0	$79\frac{1}{2}$	$71\frac{1}{2}$	†Loftus Road	73	$+1\frac{1}{2}$	-	-	-	-
§10	F.P.	4.23	$12\frac{1}{4}$	$11\frac{1}{4}$	†Mears Group	$11\frac{3}{4}$		K0.2	-	2.1	-
75	F.P.	5.46	$93\frac{1}{2}$	$82\frac{1}{2}$	†Mondas	$90\frac{1}{2}$		-	-	-	-
§154	F.P.	18.8	$211\frac{1}{2}$	$187\frac{1}{2}$	Oriental Rest	$207\frac{1}{2}$		-	-	-	23.5
§250	F.P.	194.7	302	$282\frac{1}{2}$	Ultra Elctn	$299\frac{1}{2}$	$+4\frac{1}{2}$	RW8.5	2.3	2.7	20.3

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	1996 Low	Stock	Closing price p	+or-
380	Nil	12/11	8pm	$\frac{3}{4}$pm	Calm Units	$\frac{3}{4}$pm	
175	Nil	12/11	$15\frac{1}{2}$pm	5pm	Capital Inds	$5\frac{1}{2}$pm	$+\frac{1}{2}$
145	Nil	20/11	$19\frac{1}{2}$pm	$12\frac{1}{2}$pm	European Leisure	$13\frac{1}{2}$pm	
74	Nil	21/11	$8\frac{1}{2}$pm	6pm	Perkins Foods	$7\frac{1}{2}$pm	
-	Nil	25/11	$87\frac{1}{2}$pm	79pm	Springwood	$87\frac{1}{2}$pm	+3

pm premium.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

STOCK INDICES

[illegible]

NOTICE OF EARLY REDEMPTION

GRACECHURCH PERSONAL LOAN FINANCE (NO. 1) PLC

(the "Issuer")

£30,000,000 Mezzanine Floating Rate Notes due 1998

(the "Notes")

NOTICE IS HEREBY GIVEN that pursuant to Condition 5(d) of the Terms and Conditions of the Notes (the "Conditions"), the Issuer will redeem all outstanding Notes at their Principal Amount Outstanding on 13 December 1996, being the next Interest Payment Date.

Payment will be made upon presentation and surrender of the Notes at the office of Barclays Bank PLC at 5 Angel Court, Throgmorton Street, London EC2R 7HT. Payment will be made by transfer to a pounds sterling account maintained by the payee with a bank in London.

Notes should be presented for payment together with all unmatured Coupons and Talons appertaining thereto.

Terms and expressions used in this Notice and not otherwise defined shall have the same meanings given to them in the Conditions.

Gracechurch Personal Loan Finance (No. 1) PLC

Dated 11th November 1996

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, MERCHANT

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

ENERGY EFFICIENCY

A business praying for 'cultural revolution'

In theory, concern about global warming creates a huge market for energy efficient services. In practice, however, the big opportunities may depend on dramatic social and political change. Leyla Boulton explains

Having been weakened by falling oil and gas prices, the business of energy efficiency looks set to receive a new *lease of life as concerns* about the environment grow.

Chief of these worries is global warming, whose best-known man-made cause is the burning of fossil fuels by industry and the general public.

Other concerns include "acid rain" from power plants, which devastates forests *and* lakes, and air pollution from road transport.

Having become fashionable after the 1973 Middle East oil crisis, energy efficiency has attracted considerably less attention in more recent years as oil and gas prices *have fallen and big* new reserves have been found around the world.

But growing evidence that a changing climate could trigger a rise in temperatures and sea levels may lead to renewed interest in energy *efficiency* on an international scale. Global warming could provide an unprecedented *stimulus* for companies offering energy efficiency goods and services, a market estimated by the International Institute *for Energy Conservation* (IIEC) at $1,800bn over the next 40 years.

In just over a year's time, governments are due to meet in Kyoto to negotiate fixed targets for the developed world to reduce its greenhouse *gas emissions* after the year 2000.

The Inter-Governmental Panel on Climate Change (IPCC), charged by governments to research the threat, reported earlier this year that the "balance of evidence" suggested a "discernible" human influence on climate.

The conclusion triggered an outcry from fossil fuel *and other industry lobbyists*, who suggested it did not properly summarise the more tentative 500-page IPCC report it was derived from. The findings, however, received the full backing of most governments meeting in *Geneva this summer*.

Governments' disagreements are with each other – over the best way of tackling the problem.

While some European nations favour carbon taxes, the US is vehemently opposed to any new taxation, preferring instead proposals to trade permits for carbon dioxide emissions internationally.

Given these divisions, promoting greater energy efficiency is likely to emerge as the least costly, and therefore least controversial solution.

This is because even if, as one official puts it, "global warming turns out to be a hoax", wasting less energy will lead to a number of *other* environmental and economic benefits.

Mr Michael Jefferson, deputy secretary-general of the World Energy Council, reckons that energy efficiency measures could easily cut carbon dioxide emissions by around 20 to 30 per cent.

"It is not clear," he says, "apart from inertia, ignorance, and *institutional* complacency, what the obstacles are to energy efficiency".

One powerful *impediment*, however, is what some economists would describe as market *failure* – the fact that energy prices do not necessarily send the right signals to consumers.

"An electricity company makes money by selling electricity, not by saving it," says one UK official. "For some parts of the economy it is not rational to go for energy efficiency."

The market failure in this instance is the fact that fossil fuel prices do not take into account costs in terms of environmental damage and the depletion of natural resources.

"Green" indicators published by the UK's *Office for* National Statistics earlier this year suggest that net national income may be overestimated by £2bn a year because the depletion of oil and gas reserves is not being taken into account.

Measures to improve the situation include taxes and special charging mechanisms that would give electricity suppliers an incentive to help customers save energy.

The latter initiative has already been taken in the US, with government subsidies for companies that promote energy efficiency among customers. But a first step for many countries, especially in the developing world, is to phase out subsidies *for fossil fuel consumption*.

In the absence of attempts to correct the market failure globally, however, the world's record in pursuing energy efficiency so far has been mixed.

Import-dependent countries such as Japan have made considerable headway since the 1970s oil crisis in promoting energy efficiency. *Scandinavian nations* have introduced so-called carbon taxes on energy use in a bid to help fight global warming. Others such as the UK, with their own reserves of cheap oil and gas, have left energy efficiency largely to market *forces*.

On the positive side, the UK has taken a lead in phasing out energy subsidies and has instituted an annual 5 per cent real increase in fuel duties. But it has led opposition within Europe to a proposed European *Union* wide carbon tax on the grounds that the EU should not interfere in domestic taxation.

Developing nations meanwhile have lacked the capital and the know-how to make the necessary investments needed to help their economies cut energy costs.

The UK provides a microcosm for the problems facing energy efficiency in the industrialised world. The Energy Saving Trust, a government body set up to promote energy efficiency, cites a "hassle factor" as the main obstacle preventing many companies *from investing* money and management time in cutting their energy bills.

The public, meanwhile, has been reluctant to spend cash in becoming more energy efficient in spite of the longer-term financial benefits of doing so.

The Trust reckons that households, which account *for 30 per cent of UK energy* consumption, could save £3bn a year on their energy bills for a one-off investment of £8bn.

"This is a pretty attractive payback," says Mr Eoin Lees, the Energy Saving Trust's chief executive. "Why is this investment not happening?"

Mr Lees says the main reason is a lack of knowledge about the abundance of free advice for both business and households on how to make such savings.

Also on offer for households are cash incentives to instal energy-efficient technology such as gas-condensed boilers.

Another obstacle to change is the general public's desire to spend money on *things* that offer immediate gratification rather than something that, according to recent market research, is seen as remote and irrelevant to people's lifestyles.

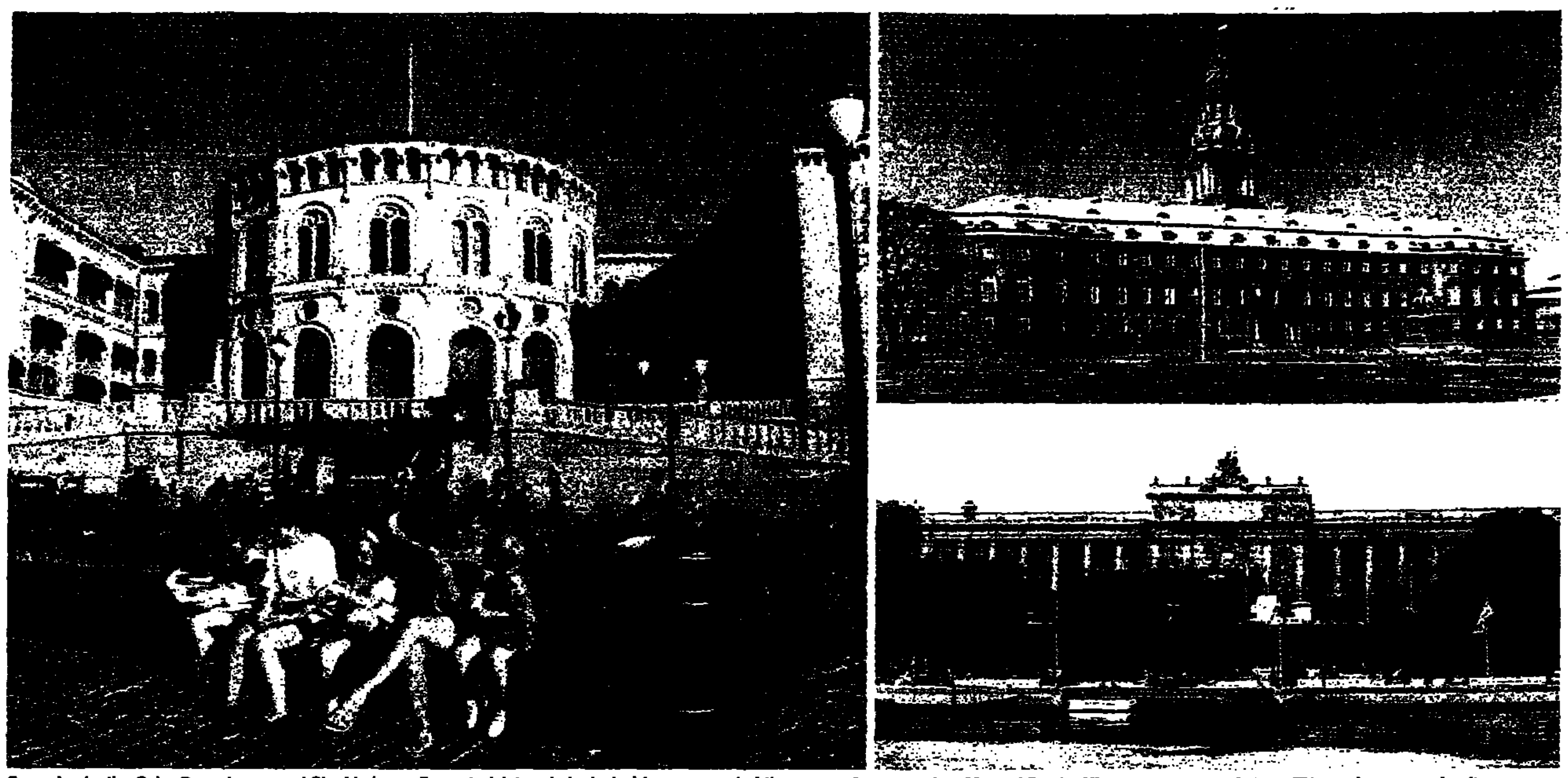
In a bid to correct that perception, the Trust in January launches a marketing campaign to effect a "mini-cultural revolution" that will make energy efficiency fashionable again.

Advertising, however, may be only part of the answer. A third obstacle is the lack of a co-ordinated policy that combines education with appropriate *price signals* and demanding energy efficiency standards. Mr Lees fears that leaving matters to the market, especially as the government's liberalisation of electricity markets looms in 1998, will mean that energy efficiency takes much longer to make an impact. Efforts to pump-prime the market for new technologies are also important in order to help bring down the price of alternative power. The success of government support is

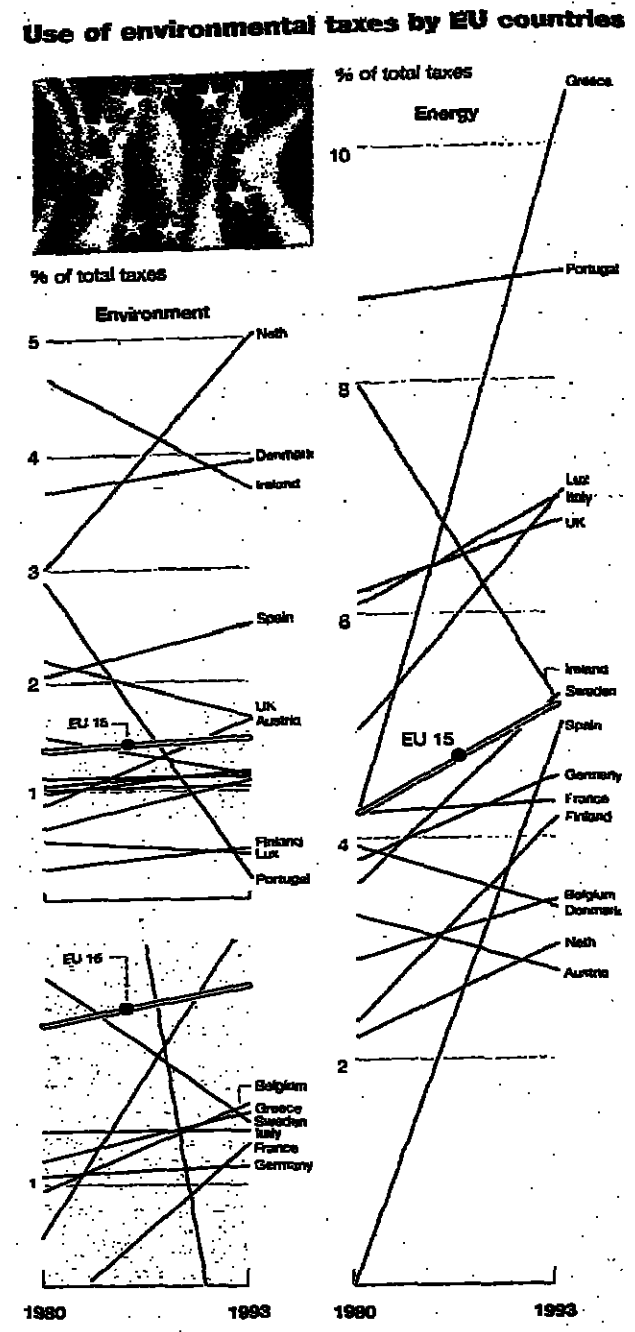
Continued on page 6

IN THIS SURVEY

Colour illustration: Bill Butcher



Green lands: the Oslo, Copenhagen and Stockholm parliaments (pictured clockwise) have supported the cause of eco-taxation. Meanwhile, the UK government has led the EU members opposing it



Source: European Environment Agency

■ **Energy taxes/UK:** by Leyla Boulton

Red light halts green taxation

Compared with Scandinavia, Britain's policy on 'eco taxes' is unenlightened

An advertising campaign to be launched next January by Britain's Energy Saving Trust (EST) could easily be seen as a sign of despair.

Disappointed by its inability to get a better reception for the cause of energy efficiency, the government quango recently conducted market research to find out why consumers were not more eager to save money by reducing their energy bills.

Mr Eoin Lees, the trust's chief executive, says the research shows that "the idea of energy-saving is low-tech, passé, and, like sandals, not fashionable".

The £3m advertising campaign, devised by Saatchi & Saatchi, will seek to correct this, making energy waste as unfashionable as drink-driving.

Given a distinct lack of appetite among politicians for new energy taxes, there is little else the EST can do.

The government not only argues that it has gone further than many other countries in removing subsidies for energy but also that its decision to institute a 5 per cent real increase in energy duties every year already constitutes a significant tax, whose bite will be felt with time.

However, despite the recent introduction of a landfill tax, British efforts on the eco-taxation front still pale in comparison with those of Scandinavia.

Advocates of environmentally-motivated taxes, including the European Commission, the European Union's executive body, argue they can help reduce unemployment as well as protect the environment, provided they are accompanied by corresponding cuts in labour taxes.

But they remain a sensitive issue – at both ends of the political spectrum. Britain's Institute for Public Policy Research (IPPR), a think tank set up to help the Labour party plan for government, recently produced a dazzling blueprint[1] for an environmental reform of the UK tax system.

While privately sympathetic to its ideas, Labour's shadow Treasury team is refusing to commit itself to any specific proposals for raising new taxes. The party's first and only commitment so far on taxation, announced last month by Mr Gordon Brown, the shadow chancellor, dismayed both environmentalists and suppliers of energy efficient materials and technology. Mr Brown said he would cut VAT on domestic heating fuel from 8 to 5 per cent on the grounds that to do so would be socially fairer.

But his critics said that helping the poor make their homes more energy-efficient would be a far more effective solution to so-called fuel poverty than reducing the fuel bills of rich and poor alike.

Among Britain's political parties, only the Liberal Democrats have come out in favour of a national carbon tax, to be offset by cuts in national insurance contributions. Mr Matthew Taylor, the party's environment spokesman, says that such a shift in the tax burden is a "win-win" strategy that would help both jobs and the environment.

> A unified EU carbon tax would help fight global warming

Meanwhile, the opposition of successive Conservative governments has given most other European Union countries a convenient excuse for failing to agree to Commission proposals for a unified EU "carbon tax" that would help fight global warming by reducing carbon dioxide emission from the burning of fossil fuels.

However, Denmark, Sweden, and Norway have been leading the way in imposing their own carbon taxes. And some analysts believe that it is only a question of time before the concept of eco-taxation gains more widespread currency.

A spate of new reports illustrates the improved level of public information about a subject that frightens politicians but makes perfect sense to many economists who see eco-taxation as helping to kill two birds – pollution and unemployment – with one stone.

According to the Copenhagen-based European Environment Agency[2], energy taxes account for only 5.2 of total tax revenue. But it says that well-designed, environmentally-motivated taxes can be extremely effective and should be used more often.

The London-based IPPR says that environmental taxation is most likely to work if it is supported by regulation.

"Regulations should be used to increase the efficacy of environmental taxes by increasing the elasticity of demand for the activity being taxed," it says. "An energy tax will be more effective when backed by minimum efficiency standards for buildings and appliances."

The IPPR also recommends public information campaigns and clear signals from government that any price increases through taxation are there to stay.

"Demand is fairly inelastic if there is an expectation that a price increase will be be reversed fairly quickly. The picture is very different if higher prices persist ... then it will become worth a company's while investing in energy efficiency equipment. As the investment cycle passes, the company will acquire more efficient machinery."

Otherwise critics argue quite convincingly that only very heavy taxes, which are politically unsustainable in most cases, will have any impact on people's behaviour.

[1]*Green Tax Reform, Pollution Payments and Labour Tax Cuts, Stephen Tindale and Gerald Holtham, IPPR, 30-32 Southampton Street, London WC2E 7RA, tel 0171 4706100 fax 0171 4706111. Web site: http://www.ippr.org.uk*

[2]*Environmental Taxes, Implementation and Environmental Effectiveness, European Environment Agency, Kongens Nytorv 6, DK-1050 København K, Denmark, tel 45 33 36 71 00, fax 45 33 36 7199. Web site: http://www.eea.dk/*

■ **Energy taxes/continental Europe:** by Robert Corzine

Emu may dictate changes in policy

Taxes that benefit the environment could result from the race to meet Maastricht targets

Environmental and economic priorities rarely merge, but events in western Europe this year suggest that the two may be about to converge.

The run-up to European economic and monetary union and the desire of a number of west European countries to be among the first states to adopt a single currency may cause some governments to re-examine their positions on energy taxation and subsidies. The search for spending cuts and new revenues to bring their countries into line with the economic criteria set down by the European Union could cause them to focus on the energy sector, whose large size means it is always an attractive industry for tax authorities.

Analysts say a pattern of higher energy-related taxes and lower energy subsidies could arise, with a number of beneficial, if unintended, side-effects for the environment.

Such a move would be a substantial shift for most industrial countries, which have traditionally shown little interest in using energy taxes as a way of meeting environmental goals.

"Taxation is intuitively attractive, and in theory the most economically efficient approach to bringing about emission reductions," the International Energy Agency (IEA), which monitors energy markets on behalf of western industrialised countries, noted in a report earlier this year.

But the IEA went on to admit that in practice "public resistance and concern about the international competitiveness of business severely limits governments' room for manoeuvre".

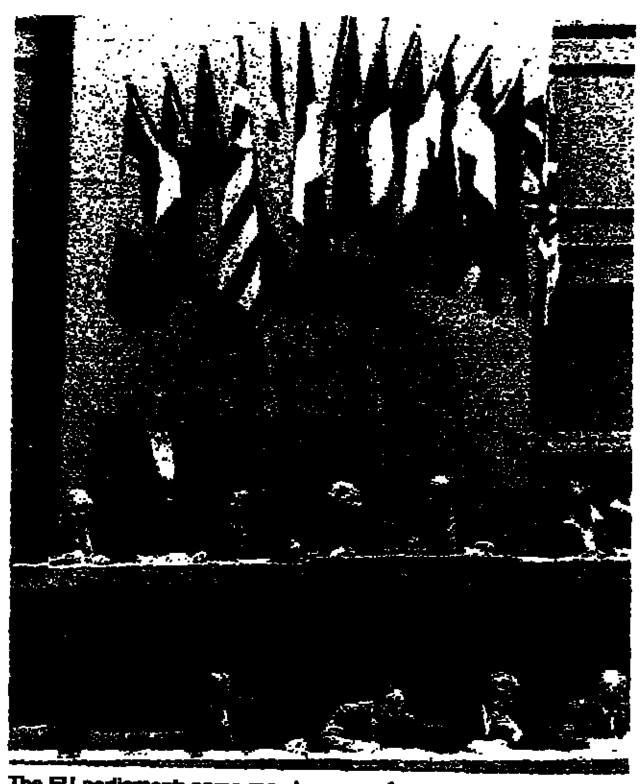
Countries that have justified higher energy taxes have often used environmental arguments as a smoke screen for what would otherwise be viewed as simply another tax rise. In recent years, the British government, for example, has raised taxes on petrol by at least 5 per cent a year, ostensibly to help the country meet its emission control commitments.

Although the government's justification for its policy has been met with widespread scepticism, the environmental merits of such a strategy have been generally accepted by the public. The strategy also looks like it will result in the more efficient use of transport fuels. One study this year even predicted that if continued, such a taxation regime will eventually lead to a contraction in petrol demand in the UK, possibly as early as the beginning of the next decade.

But other attempts to use environmental arguments to explain tax rises have failed to attract public support. Two years ago, the UK government tried to justify the imposition of the full rate of value added taxation on domestic fuel and power on environmental grounds. But it ran into strong opposition from members of the public and its plan was never fully implemented.

In addition, any new taxes would come on top of plans to introduce more stringent fuel specifications in the EU. The European refining industry is facing multi-billion dollar, environmental-related investments over the next few years to bring its output into line with new EU fuel standards. (The expected cost to the UK refining industry alone is $1bn by 2000.) Such investments will inevitably put upward pressure on fuel prices, say analysts.

Privatisation may be a better method of raising revenues in the run-up to Emu. This is particularly possible in the natural gas industry, at present tightly controlled in most European countries by state monopolies. Business and industry are pressing EU governments to introduce competition to reduce gas prices, which are much higher in continental Europe than in the UK or the US.



The EU parliament: some members may favour new energy taxes

Continental European governments moving towards monetary union may be able to overcome any similar resistance to new energy-related taxes by pointing to the greater economic good that may emerge from the adoption of a single currency.

Targeting the energy sector for extra revenues, however, may not be all that simple. Taxation levels are already high in most European countries. Various taxes and excise duties account for about three-quarters of the cost of petrol in most of Europe, and more than half the retail cost of diesel.

In Germany, energy taxes already support other economic goals. A 1994 increase on oil products was used to reduce the debt of the German railway monopoly and to finance the extension of the national transportation network.

Privatisations could be another example of the collision between economic necessity and environmental protection. Advocates of gas liberalisation say a freer market may encourage large energy users, such as power generators, to switch from dirtier, coal-fired plants to cleaner, gas-driven units. They point to the experience of the UK, where the gas market is due to be fully liberalised by 1998. The "dash for gas" by British power station operators is expected to account for about half of the country's projected reduction of 33.4m tonnes of carbon dioxide.

HAMPSHIRE AND ITS CITIES

The county is fully open for business

Hampshire is keen to shed the legacies of the overheated, closed-shop 1980s, and to get on with meeting the new challenges. Graham Bowley reports

An aerial view of Portsmouth harbour. A £42m lottery millennium award, matched by funding from local government, is to go towards a large-scale redevelopment

The painful economic downturn of the early 1990s, following fast growth in the late 1980s, exposed weaknesses in the Hampshire economy which the county is still trying to put right.

The downturn showed how dependent Hampshire and its cities had become on service sector jobs, many of them unsustainable, created during the 1980s; and on the defence industry, which suddenly faced large cutbacks following the decision to scale down defence spending.

The challenge now for the county, the UK's biggest by population outside metropolitan areas, is to redevelop its neglected export sectors, to attract inward investment in a sustainable manner, and to manage the contraction of its defence-related economy. The last, the county is discovering, is throwing up as many opportunities as problems as companies diversify, and as huge swathes of prime land are released by the military, especially around Portsmouth.

Councillor Mike Hancock, leader of the Hampshire County Council, says: "People in Hampshire have confidence in the future despite the setback of the early 1990s. With our good infrastructure, we are seen as a desirable location for modern industries."

There does appear to be a renewed will in Hampshire to fight its corner for new investment, and for help from central government, which many feel it missed out on in the last decade. Economic partnerships between government agencies, local authorities and the private sector have been forged, such as the Hampshire Economic Partnership (HEP), South-East Hampshire Economic Partnership and the Farnborough Aerospace Consortium. Companies are being encouraged to work closely with their counterparts in other European countries, such as Spain, France and Russia.

Following the government's white paper on competitiveness, the HEP is implementing a competitiveness plan to gauge Hampshire's structural strengths and weaknesses.

Many are anxious to counter the 1980s view that Hampshire was satisfied with the way things were, and was thus "closed for business" to outsiders. A rallying call often heard now is that Hampshire and its cities are "open for business".

"There are strong players working for our interests which we did not have 10 years ago," says Richard Mead, estates manager at IBM in Portsmouth. IBM has three centres in Hampshire: at Hursley near Winchester, in Basingstoke, and its Portsmouth headquarters.

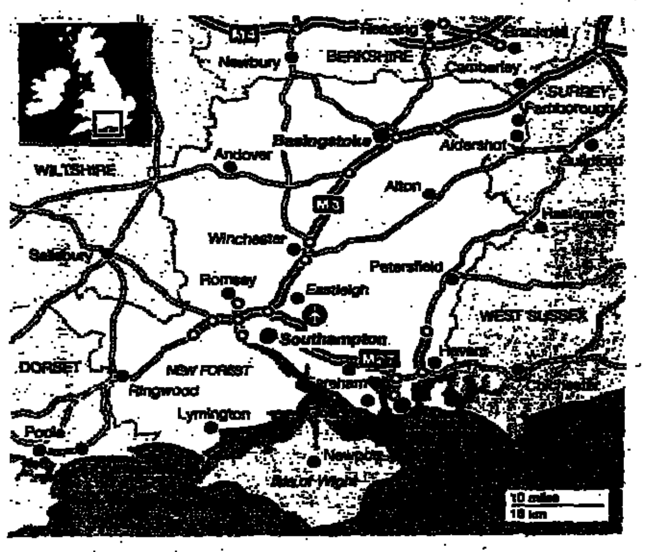
Whether this will translate into a new lease of life for the county is not yet clear.

Business Strategies, the regional consultancy, calculates that Hampshire is contributing a declining proportion to the UK's gross domestic product, a trend which it says is set to continue. "We think Hampshire saw its best days in the late 1980s. Now it is struggling," says Jacqui Timothy, senior economist at Business Strategies.

Hampshire did well in the UK economic boom towards the end of the 1980s. It was popular among companies wishing to move out of London. Basingstoke, in the north of the county did especially well, attracting such large companies as the Automobile Association and Winterthur, the insurance company. New companies, mainly in the services sector, chose Hampshire and its cities as their home.

They were attracted by a pretty and varied countryside which includes the New Forest, a long coastline and historic cities such as Winchester. They also found appealing the county's good transport links which include the M3 motorway linking north and south – and which, it is hoped, will lessen the county's slight north-south divide; and the M27 which links Portsmouth and Southampton. There is also a developed rail network. Hampshire has two of the UK's biggest ports in Southampton and Portsmouth, offering ready access to the continent and beyond. It has a new international airport outside Southampton. Gatwick and Heathrow are only an hour away.

And companies were attracted also by a large and skilled workforce and an impressive educational infrastructure which includes universities in Southampton and Portsmouth.



GDP grew by an impressive 7 per cent in 1988. But by the end of the decade several parts of the county, particularly in the north, were overheating in labour and property markets.

One big problem was that behind the rapid growth there was a shift away from the county's key export-oriented sectors.

The subsequent recession saw GDP growth fall to 1.4 per cent by 1990, followed by two years of contraction. Unemployment rose sharply. The county which prided itself on its strong European ties went from being a high-ranking European region in terms of GDP to a middle-ranking one, although it has recovered slightly in the last couple of years.

GDP is forecast to grow 2.3 per cent this year, rising to 3.1 per cent next year. Unemployment has fallen across the county, although it remains high in certain black spots, particularly in the inner cities of Southampton and Portsmouth.

One of the problems to emerge since the recession is that the flow of companies relocating to the county from London has slowed. Another is the amount of surplus property space, a hangover from the 1980s boom, which reduces the scope for new development. John Rees-Evans, head of economic development at Hampshire County Council, estimates that Basingstoke, for example, still has 1m sq ft of available office space.

Another perceived challenge facing Hampshire is the county's dependence on defence. Hampshire is probably unique in the UK by being home to all three of the defence forces: the navy in Portsmouth, the army at Aldershot, and the airforce at Farnborough. The defence cutbacks mean companies which relied on the defence industry are having to find new markets, and there are swathes of former MoD land coming on to the market. Gosport is a prime example of former defence-owned land which is now being redeveloped. Farnborough airport is being put on the market. Although Business Strategies thinks the worst of the defence restructuring is probably over, the challenge for the county continues to be to make sure the land is developed sensibly, in a way that creates alternative employment.

Portsmouth and Gosport are planning a redevelopment of Portsmouth harbour, funded in large part by

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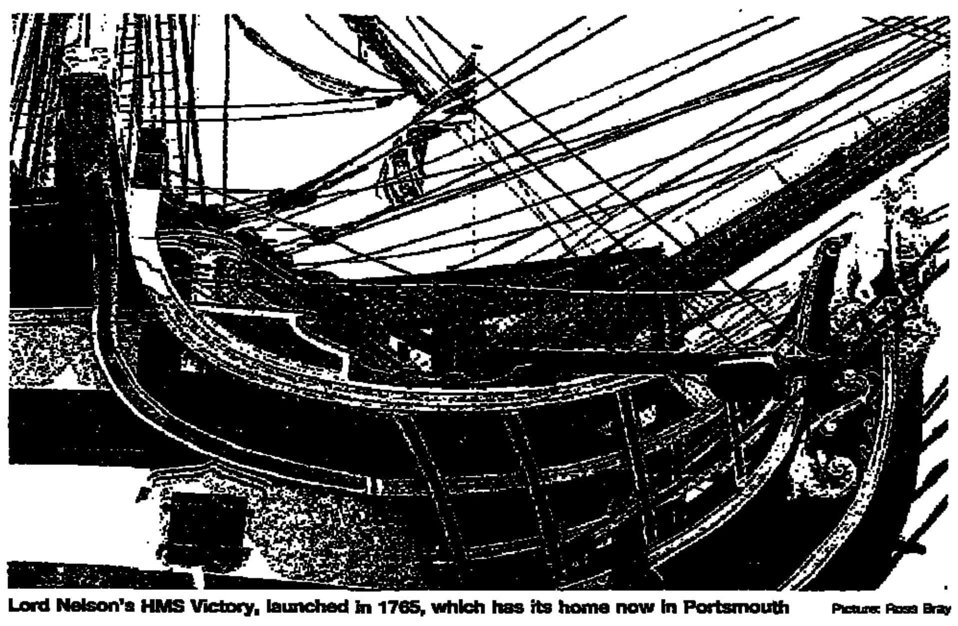
A tale of three cities: the triangle on which the county bases its fortunes



Lord Nelson's HMS Victory, launched in 1765, which has its home now in Portsmouth Picture: Ross Bray

■ **Portsmouth:** by Graham Bowley

Stand by for the millennium

The city is *determined* to turn the losses around into opportunities

Portsmouth's star is rising.

The island city on Hampshire's south coast, home to the royal navy for 500 years, lagged behind some of its faster growing Hampshire neighbours such as Basingstoke in the 1980s. Its troubles deepened early this decade as recession gripped the county and defence cutbacks bit hard, forcing traditional defence suppliers to *find other markets*.

But the city has done much to promote its image, and reality is now beginning to match the city's high aspirations.

"We had all our eggs in one basket, in defence and in services which suffered during the recession, but now Portsmouth is keen to diversify and seek an international dimension," says Robert Dimpfl, business development officer at Portsmouth's Regional Business Centre.

The heavy historical legacy which held Portsmouth back when the defence industry began to contract is now being turned to the city's advantage. For one thing, large tracts of prime land close to the harbour formerly owned by the Ministry of Defence are coming on to the market, offering new *opportunities to private sec*tor companies.

For another, the city is keen to promote tourism as one of its main industries – tourism already contributes £320m a year to the local economy – marketing heavily the city's links with the navy and its historic maritime past.

Portsmouth is home to Lord Nelson's HMS Victory, Henry VIII's Mary Rose, and the Royal Naval Museum.

The centrepiece of its regeneration is to be the development of Portsmouth harbour. The harbour has *been chosen by the Millen*nium Commission as one of 12 landmark sites around the UK to celebrate the turn of the century. The Commission awarded the city more than £40m for the development of the harbour, which the city must match with its own funds.

The development, on up to 700 acres of former defence land which has been closed to the public for about 250 years, will include a 165-metre high Millennium Tower, 5 km of waterside public promenades, waterbuses connecting Portsmouth and Gosport on either side of the harbour, and the development of Gunwharf Quay, a former defence training site, into a waterfront area with shops and leisure facilities.

On the Gosport side of the harbour, Gosport Esplanade, Priddy's Hard and Royal Clarence Yard are all to be *developed. There are plans* for a £100m light rapid transit system which will pass under the harbour to link Portsmouth with Gosport and nearby Fareham.

"We have been able to turn the peace dividend into an opportunity rather than a downside," says Mark Ludmon of Portsmouth City council.

Aside from tourism, the sea is still a generator of wealth for the city. Portsmouth is the UK's second busiest and fastest-growing ferry port, handling 3m ferry passengers a year. The port employs about 2,000 people directly but accounts for an additional 2,000 jobs indirectly, the port estimates.

"The port is important for the city. It is the only successful municipal port in the UK and it is a prime link to Europe," says Martin Put*man, Portsmouth commer*cial port manager.

Last month the port unveiled an 11 acre expansion to its freight facilities, costing £13m, which increased the port's area by about 30 per cent.

Many companies, too, have been attracted by the technical marine skills that Portsmouth's close relations with the Royal Navy have bred in the local population.

"It was obvious to be located where the traditional expertise and the technology is," says Richard Spalding, managing director of Ray*theon Electronics, which* makes marine electronics equipment at its plant in Portsmouth, where it employs 300 people.

The city boasts an impressive stable of large companies, testament to the area's good location and infrastructure, and the efforts the local *council has gone to in* attracting businesses to the area.

"There is a good infrastructure in this area, which is helped by long established businesses like IBM and Marconi," says Mr Spalding.

Portsmouth and its surrounding areas are home to the European headquarters of Pall Corporation, the UK headquarters of Zurich Insurance and IBM, which employs about 3,500 people on a site built on reclaimed land in the city. GEC Marconi, Matra Marconi Space, Johnson and Johnson, Ray*theon Marine, and Vosper* Thorneycroft also have a large presence in the area.

"We came here because it is reasonably close to London, but also the city council was accommodating and helpful at a time when many local authorities were not happy about a US company relocating in their area," says Richard Mead, estates manager at IBM in Portsmouth.

Portsmouth's university also plays a part in strengthening the quality of the local labour force and attracting companies to the area. The university, which is coming to dominate the city economy as it expands, has about 2,000 staff and 15,000 full-time students, a large proportion of which stay on in the city and work locally.

One challenge for the city in the coming year will be *the local government's* changeover to unitary status next spring. Hampshire county council will relinquish control of key government departments, including education, to Portsmouth city council. Supporters of the changeover say it will mean Portsmouth will be responsible for its own destiny, but critics say quality of services could suffer as the council struggles under the greatly increased and unfamiliar workload.

There are also worries that the council's attempts to find the added £42m needed *to match the Millennium* Commission's £42m grant – which they need to do in order to secure the award – could mean valuable resources are diverted away from other areas of the city's budget.

■ **Southampton:** by Richard Adams

Facing up to the problems

A number of projects are geared to halt the drift out to the suburbs

Where is the UK's largest inner-city shopping project being built – London? Glasgow? Manchester?

Surprisingly, the answer is Southampton. The project is part of a ambitious plan to renovate the city centre of Southampton, and halt the drift out of the city by retailers and shoppers.

In April this year the Department for the Environment gave the go-ahead to the latest phase of the West Quay centre, a 1.5m sq ft *multi-use development* in the heart of Southampton.

The site's developers, Imry Holdings, say the final complex will be built over 53 acres, making it one of the largest of its kind in Europe. They estimate its total cost to be around £250m.

If all goes to plan, the West Quay project should be completed by the end of the century. Its developers and Southampton City Council hope the centre will reverse the town centre's declining ability in recent years to attract visitors.

In 1990, Southampton was ranked 22nd in a league table of UK market size rankings. But by 1994, the city had slipped to 32nd, behind Brighton and Plymouth. Southampton City Council says it hopes the development will attract 20m visitors a year, and create more than 3,000 jobs.

The developers point to the success of a similar venture undertaken by Imry in Leicester. Since the Shires mall in the centre of Leicester was completed in 1993, the city has attracted back many of the shoppers it had been losing to large out-of-town retail parks.

The result was that Leicester's catchment population of shoppers rose from 28th in UK market size to 19th.

West Quay's chances of success were boosted last month with the announcement by the John Lewis Partnership that it had signed up for a 265,000 sq ft department store in the complex. In property jargon, the large store will "anchor" the shopping centre, by acting as a main attraction for visitors.

The first phase of the project has been completed, with the construction of seven retail warehouses. They include the first purpose-built unit in the UK for The Source, Sears' home furnishing chain.

But until the centre is finished some time after 1999, a fall in visitor numbers to the central city could cause worrying times for Southampton. For decades, the city has been the most prominent British port for visiting cruise-liners. However, with Dover soon to open a new £9m terminal for liners, the competition for the European tourist trade is hotting up.

This year Dover claimed to have 102 liner calls booked, two more than Southampton – possibly the first time Southampton has been overtaken.

Southampton's critics say that the port's cargo activities – including the UK's second largest container terminal – detract from its cruise business. But Southampton is still the home of Britain's most prestigious ocean liners: the QE2, Canberra and Oriana.

The port has recently *extended its two terminals*, and is unique in being able to berth the four biggest liners in the world at the same time. In total, Southampton will handle around 230,000 passengers, double the number of passengers using Dover this year.

The port's cargo operations are thriving. In 1995 the docks handled 10m tonnes of non-oil cargo, some 7 per cent of the UK's seaborne trade. This year, Associated British Ports reported that deep-sea container volumes were up 25 per cent through new contracts won by Southampton Container Terminals, a joint venture between it and P&O.

The port currently has plans to expand down the western side of Southampton Water. The aim is to gain access to the deeper water channels on that side, allowing use of the harbour by large ships.

Southampton's other transport links are also being developed. Southampton International Airport, four miles outside the city, was redeveloped by its owners BAA in 1994 and now caters for 500,000 passengers annually.

The airport has developed a close relationship with the Dutch airline KLM, which uses Southampton as a link to its international "hub" terminal at Amsterdam's Schiphol airport. Other services include those to the Channel Islands and mainland Europe.

In close proximity to the airport is the proposed Southampton International Park. The 72-acre development by Gazeley Properties, the property arm of supermarket retailer Asda, has initial planning permission for over 1.3m sq ft of office, industrial and warehouse building.

The developers hope to capitalise on the combination of air sea and rail links, with the site lying next to the M27 motorway.

One local company currently making good use of those links is Ocular Sciences in Southampton. The soft contact lens manufacturer was one of this year's winners of the Queen's award for exports.

Central to many of the city's recent developments has been the work of Southampton City Council. The council itself is set to disappear on April 1 next year, when it will be replaced by a new unitary authority.

As a unitary authority, the new council will combine the responsibilities of the old city council with those services, such as education and social services, formerly provided by Hampshire County Council.

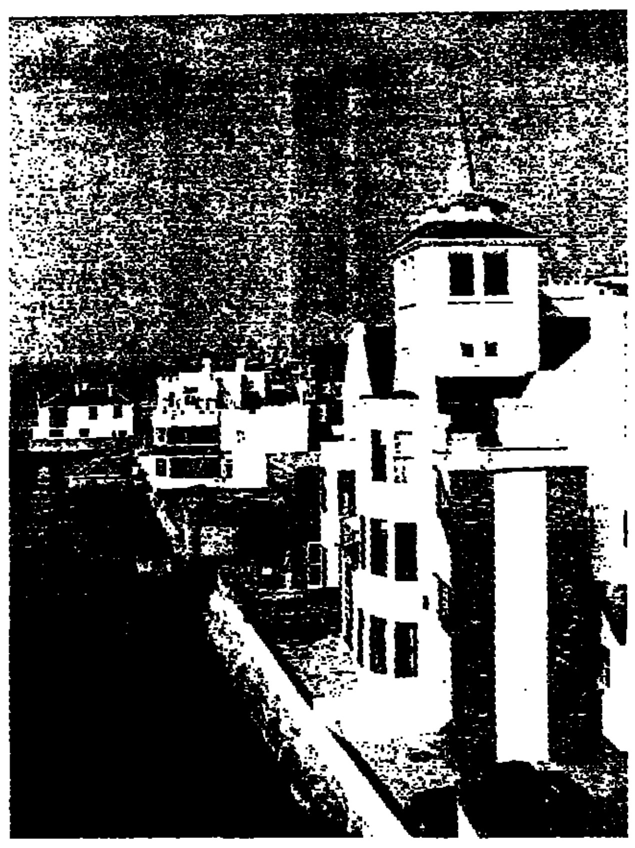
The new unitary authority's budget will increase from £120m to £300m, while the council's workforce will almost triple to 6,000 employees.

The council was recently successful in attracting £26m in grants from central government, to regenerate the St Marys and Bevois Valley areas and tackle urban deprivation across the city.

And in March this year the city council was awarded one of the largest grants from the National Lottery's sports fund award for a single project – £6.1m to build an 8-lane swimming pool and leisure complex in the city centre.

The facility will be sited on the edge of the West Quay redevelopment, where Rank Leisure is also planning a £25m cinema, sports and restaurant project.

But there is one piece of prime Southampton property that locals hope will not be up for sale: Southampton and England footballer Matt Le Tissier is valued at £7m, but Saints fans want him to remain a fixture in the city centre.



The Tower House in Old Portsmouth: the city is keen to promote tourism, marketing its historic maritime past Picture: George Hall

■ **Basingstoke:** by William Lewis

'The future is really amazing'

Business leaders say there has been a strong recovery since the 1983 low

The Haymarket theatre is one of the clearest symbols of Basingstoke's development from a small market town in 1960s to one of the most economically and culturally dynamic regions of Hampshire.

Basingstoke's Haymarket theatre is now one of the leading venues in the south of England and, following a refurbishment completed in 1993, it is attracting stars such as Brian Blessed and Sarah Brightman. An average of more than 6,000 people now attend each production put on by the Haymarket, in spite of competition from the Anvil concert hall, a £12m development partly funded by the borough council and opened in 1994.

In 1974, when Guy Slater took a resident professional theatre company to the Haymarket, an evening out was a very different experience. Mr Slater, who was a director of the theatre company until last year, says it was not just that the audiences were smaller, but it was *even difficult to round off* the evening with a meal. "There was only about one restaurant that people could go to," he says. "Now there are more than ten."

In the last 20 years, the growth and development of entertainment facilities in Basingstoke have mirrored the town's economic success. Since the early 1960s when Basingstoke – population 17,000 – was identified as a key location for the London population overspill, the town has developed into one of the most important areas of economic growth in *Hampshire*. The population of Basingstoke town is now around 86,000, and Basingstoke and Deane borough has a population of approximately 148,000.

It was during the 1980s that Basingstoke experienced its most intense period of economic growth in recent times. Between 1981 and 1991 employment rose by 26 per cent and the number of companies operating in Basingstoke more than doubled, representing a growth rate of more than three times the UK average. Growth was particularly prevalent in sectors such as financial services, defence and construction.

In 1990 the area was hit hard by recession, but business leaders say now that since 1993 there has been a strong recovery. In 1994 Basingstoke's unemploy*ment fell by one fifth but* Basingstoke's loss of firms – 7 per cent between 1991 and 1994 – was below the national average.

John Rees-Evans, head of economic development at Hampshire county council, says that during the recession of the early 1990s, "the tide went out and there were stretch marks". Basingstoke was particularly badly hit by downsizing, outsourcing, and other corporate trends which were employed by several companies with offices in the area, such as IBM. "We are now battling to restore the picture and ensure people are aware of the benefits of Basingstoke," Mr Rees-Evans says.

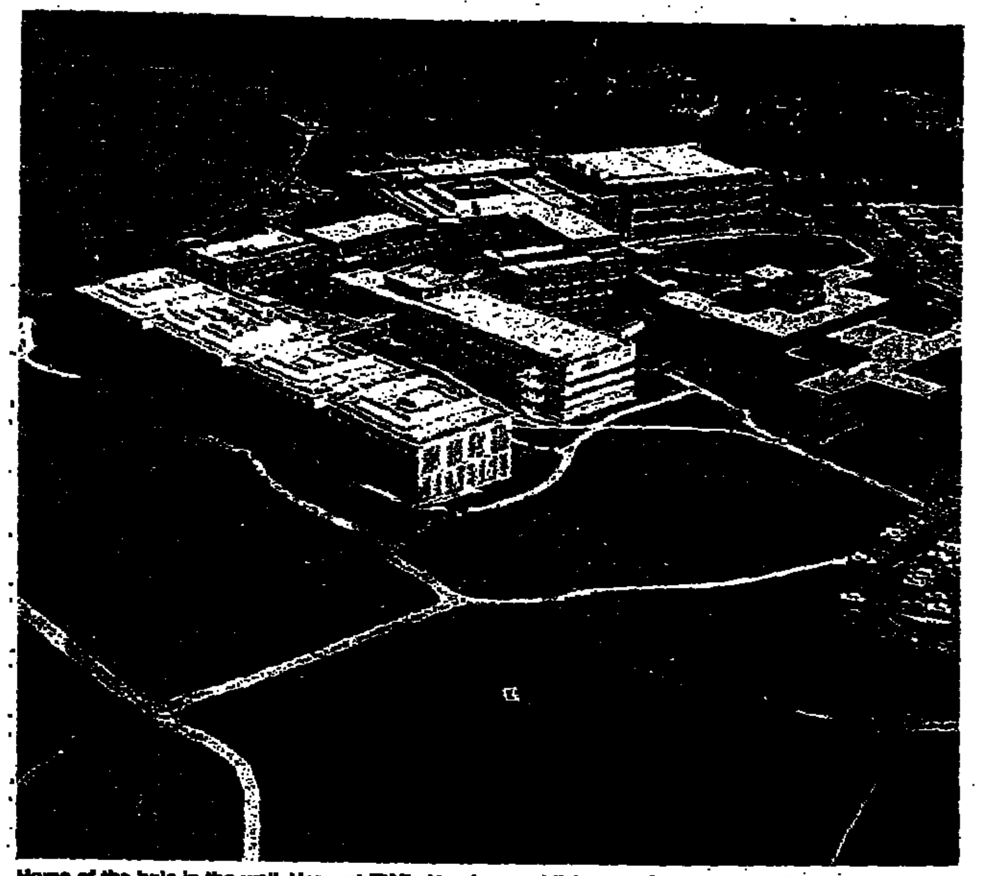
As part of the process, the Basingstoke Economic Forum, a private-public partnership body, commissioned Coopers & Lybrand and Jones Lang Wootton to prepare a report on economic and property strategy. It concluded that if council leaders and the private sector united behind a common economic strategy, it "will be eminently possible for Basingstoke to 'Achieve the Breakthrough' to make the area among the most economically successful in Europe".

Among the report's main findings were:

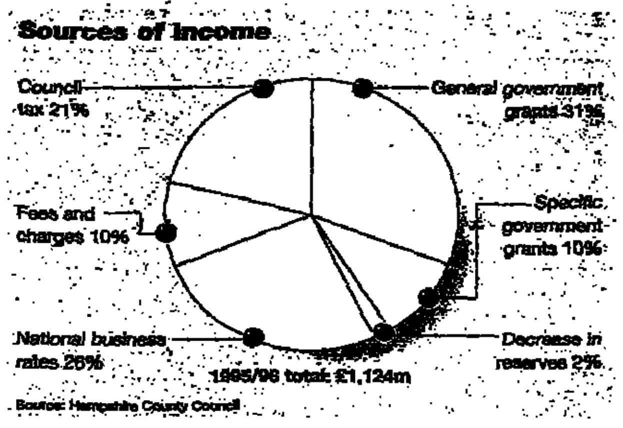
- There is strong evidence that Basingstoke suffers a substantial "leakage" of *expenditure to other towns* in the region. For example, a survey found that up to 40 per cent of Basingstoke's potential retail spending is actually being spent in other centres. Overall the number of local businesses in Basingstoke serving regional needs, including retail, fell by 11 per cent between 1987 to 1991, compared with an increase of 8 per cent in the rest of the south-east region.
- Basingstoke has fewer so-called "static" firms than any other part of the UK except Cambridge. The consultants' report found that the Basingstoke economy had an "exceptionally high degree of dynamism and volatility". More than 50 per cent of local employment is dependent on industries described as highly "mobile" – telecommunications, pharmaceuticals, electronics and business services. Several of the sectors responsible for the impressive growth performance of 1980s are now declining in terms of prospects for future employment.
- The image of Basingstoke in the eyes of the agencies which *advise* mobile investors is getting weaker. The report says this is in part due to the ageing of parts of the town's commercial property and fears that Basingstoke is "full" and in danger of overheating. The threat of disinvestment by mobile *firms moving out of Basing*stoke is "a very important one", the report states.
- In contrast to UK-wide trends, Basingstoke maintained its level of manufacturing employment through the 1980s. Losses in engineering were compensated by increases in electronics and other sectors. Also, the number of small firms in electronics, engineering and paper products increased by almost 60 per cent between 1987 and 1991.

Recognising the need for developments suggested in the report, the Basingstoke and Dean borough is attempting to implement a 10-year plan spanning seven strategic economic priorities and targets.

Robert Jolley, business development manager for the borough, says implementation of the plan is already under way. "The future is really amazing," he says. "Over the next four years there will be an investment of at least £100m in the town centre". This includes a redevelopment of the town centre and a planned transport and technology museum. "This is really exciting place to be".



Home of the hole in the wall. Here, at IBM's Hursley establishment, the technology for automated teller machines was in part developed. This is one of IBM's three large centres in Hampshire



■ **Ports and infrastructure:** by Graham Bowley

A model of a modern county

There are two ports, two airports nearby, and good rail and road links

With the two great city ports of Southampton and Portsmouth on its long coastline, Hampshire has for centuries been able to boast of being the conduit through which much of the UK's traffic to the European continent and beyond has passed.

The county has also worked hard to develop a good network of road, rail and air links, including Southampton International Airport and Farnborough airport. These now provide individuals and businesses with quick access to neighbouring counties; they have brought London to within an hour and a half for most train travellers, which include hundreds of commuters each day; and they provide access to important continental airports such as Amsterdam and Paris.

Those within Hampshire who take pride in the county's location as one of its main attractions are quick to point out that Heathrow and Gatwick are each less than an hour away by road.

Much is also made of the county's educational facilities, which provide a large and educated workforce. And the county's high standard of "soft" infrastructure is another factor in its popularity: it has a developed fibre optic network which covers most large business locations and a number of small ones, and modern digital and electronic telephone exchanges.

"For all these reasons, Hampshire has a very strong attraction as a location," says John Rees-Evans, head of economic development at Hampshire county council in Winchester.

However, in spite of their long-tradition as two of the UK's biggest ports, Southampton and Portsmouth have still had to fight to retain their positions, as they come under pressure from competing cross-channel links, not least the Channel tunnel.

Both are going ahead with ambitious expansion plans, although one of these – in Southampton – is proving highly contentious.

Portsmouth is the UK's second busiest passenger and freight ferry port. It mainly handles cross-channel passengers and freight business to destinations such as Cherbourg in France and Bilbao in Spain, with P&O European Ferries and Brittany Ferries as its main ferry operators. It has a large fruit and vegetable importing facility and handles most of the sea traffic between the mainland and the Channel Islands and the Isle of Wight.

Last month Portsmouth unveiled an 11 acre expansion to its freight port, costing £13m, which increased the port's area by almost a third. In its 20-year history, the port, which is wholly owned by Portsmouth city council, has grown from 4 acres to 40 acres, with £60m of investment. More than 3m passengers and 350,000 freight vehicles used the ferry port in 1994.

Martin Putman, Portsmouth commercial port manager, says: "With growth in traffic of 20 per cent per year up until last year, we were nearing saturation point. We needed to ease pressures and to grow." He adds that the port "is important for the city. It is the only successful municipal port in the UK. The profit it makes goes into the city coffers, and it is important in terms of employment."

The next step in the port's expansion is a £1m road network which is intended to be up and running by winter 1997, and which will allow passengers direct access to the nearby M275 motorway.

Southampton, with the UK's second largest container terminal and large refrigeration facilities, handles 48 per cent of the UK's trade with the Far East and is the main port for exports of UK-made vehicles.

It wishes to develop port facilities on the western side of Southampton harbour on the edge of the New Forest, where deeper water channels would allow bigger ships to use the port. But these plans are running up against stiff opposition from people who fear the proposal's consequences for the local environment.

The development of the ports is nevertheless strengthening Hampshire's claim to be the UK's gateway to Europe, an important issue for Hampshire's local government whose attempts to portray the county as an attractive location for business revolve around portraying it as being one of the most closely focused on European markets.

"Our port offers business in Hampshire a fast access to France and Spain and to these two countries' markets," says Mr Putman.

This claim has been strengthened over the last two years by the refurbishment of Southampton International airport, which is located 4 miles outside Southampton. Following its redevelopment, the airport authorities claim it is now the most modern regional airport in Europe.

More than half a million passengers used the airport last year, with Amsterdam, Paris, Brussels, Edinburgh and Manchester among the most popular routes. The British Airports Authority forecasts that passenger numbers are growing by about 8 per cent a year and are predicted to reach 1m by 2005. The decision by the Civil Aviation Authority to build its new air traffic control centre at Hamble is a further boost to Hampshire's air infrastructure.

On a more local level within the county, there are plans for a £100m rapid transit system to link Portsmouth, Gosport and Fareham. The hope is that this would ease traffic congestion, boost tourism and leisure, and encourage economic growth.

The challenge now for the county is to ensure that the steady economic growth and the expansion expected in the next few years, does not place too great a pressure on the existing infrastructure and environment. The completion of the M3 motorway has strengthened links between the north and south of the county, and has made journey times more predictable. But the county authorities will wish to avoid the general bottlenecks that emerged in the Hampshire economy during the late 1980s.

Another challenge is to ensure that the county retains its skilled and educated workforce. Hampshire boasts a developed educational infrastructure, with 22 further education colleges, and seven higher education institutes including two universities in Southampton and Portsmouth which have a combined student population of about 25,000. One of the problems during the late 1980s was that, while many chose to live in Hampshire, taking advantage of many of its beautiful areas of countryside, the county was losing a large portion of its workforce as people commuted to other counties. This substantially reduced the pool of skilled labour, and also put pressure on the road and rail network.

All this, and charm too. Traffic comes to a stop to allow a wild pony and her foal from the New Forest to cross a road Picture: Chris Lawson

■ **Research and higher education:** by Richard Adams

Academics make a business point

University survey shows unexpected contribution to the county's economy

Higher education is big business in Hampshire – and research by the University of Portsmouth has shown it is also good business.

A research team from the university's Centre for Economic Analysis recently published an extensive survey of the impact the university has on the city of Portsmouth and its surroundings.

The research, led by Professor Richard Harris, found that the university generated over £64m of spending within the local economy annually. It also estimated that for each member of staff employed by the university, just under two additional jobs were created in the local economy.

The majority of the total comes from spending within the region on the part of the university's 1,800 staff members and more than 9,000 students. For example, spending by staff who would not have lived in the region if the university did not exist, was calculated to be £11.4m; while student spending in the area was around £33.4m.

The survey estimated that 3,600 jobs – or 2.3 per cent of the local workforce around Portsmouth – were reliant on the university's presence.

Professor Harris says the survey showed the importance of higher education to a county like Hampshire: "The economic impact, as this study shows, goes far beyond local expenditure by the university."

Portsmouth itself was a polytechnic until the education reforms of 1990 allowed it to achieve university status. Since then, its student numbers and research activities have grown to the point where it is catching up on its longer-established rival, Southampton University.

But while its full-time student numbers are similar – although Portsmouth has a much larger number of part-time students – the former polytechnic has some distance to go to match Southampton's international reputation for research.

While Southampton became an autonomous university in 1952, it can trace its birth back to 1862 and the Hartley Institution, founded after a legacy from Henry Robinson Hartley, an eccentric local wine merchant.

Earlier this year, Southampton received the highest possible rating for teaching quality in eight of its departments. Only four other universities received more top ratings from the national funding body, including Oxford and Cambridge.

The university is the largest single employer in Southampton, with an annual turnover of £125m. Its research spending alone is £70m. It is reckoned to be among the country's top 10 universities for research.

One of Southampton's acknowledged strengths is its research in marine science. That has been bolstered by the completion of the £50m Southampton Oceanography Centre in April this year.

The centre is a joint project between the university and the Natural Environment Research Council, the UK funding body for research. Based at Empress Docks, between Southampton's twin rivers, the Itchen and the Test, the centre also houses the national oceanographic library and around 1000 students and staff.

The university hopes the centre will be further supported by a grant from the Millennium Fund to build Oceanarium 2000, a science-based visitor centre, in partnership with Southampton city council and the Met Office.

Like many universities, both Portsmouth and Southampton are keen to develop links with industry, and to help effectively exploit the fruits of their research. In 1989 Portsmouth formed the University of Portsmouth Enterprise Limited to market its expertise, while Southampton has incorporated Southampton Innovations Limited.

Roger Ashby, managing director of Southampton Innovations Limited, says the company was formed to commercially exploit the inventions of the university's scientists.

"We are setting up commercial companies that we hope one day will get stock market listings, and the benefits can be donated back to the university to support further research," Mr Ashby says. "This is a very innovative approach by a British university, but is a very practised programme in the United States."

Current research includes an environmentally-friendly cockroach trap to be marketed by a US company, Jeunique International. Research on the trap was done by biologist Dr Philip Howse, inspired by a study of carnivorous plants. Cockroaches lured into the trap by a scent find themselves unable to grip its sloping sides, thanks to electrostatically-charged powder, and slip on to a sticky surface.

The university will gain a minimum royalty payments of $1m over 10 years from the deal.

But one Hampshire company has gone a step further, and opened its own business school. In the last 10 years, IBM UK has built its own facility at Eversley to provide training for other businesses as well as its own staff. The IBM school has had links with Southampton University's business school, but now has a formal agreement with the Manchester Business School to offer a three-year Master of Business Administration programme. IBM's input includes a teaching staff of 18, supplemented by visiting lecturers, and an annual budget of £8m.

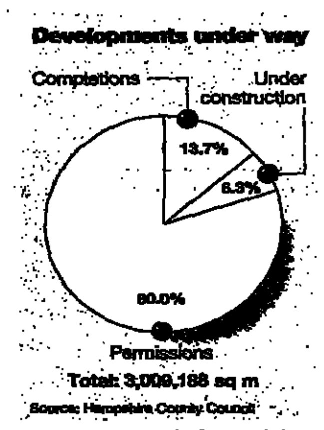
Other educational ventures in the region have not been so successful. The Southampton Institute of Higher Education, with 8,000 full-time and 4,000 part-time students, suffered in its attempts to market courses in Greece and Spain.

The Southampton Institute recently closed an outpost in Athens set up two years ago, after a failure to recruit students led to losses projected to be over £300,000. Earlier, the Institute was criticised by the Higher Education Quality Council, which said the control exercised by the Institute over its overseas courses was not "entirely safe and good practice".

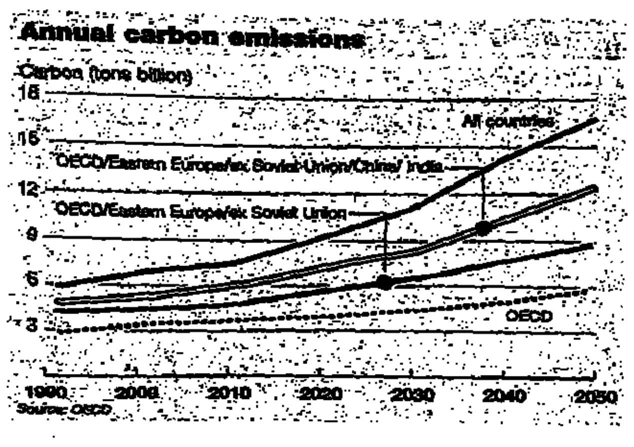
The Institute offers undergraduate degrees validated on its behalf by Nottingham Trent University. It hopes to achieve full university status within five years, when it will call itself Southampton Solent University.

And Portsmouth University attracted media interest this year when a linguistics student was allowed to write a dissertation on Klingon, the fictional language spoken by a warrior race in the Star Trek science fiction television series.

The news drew a swift response on the letters page of the Daily Telegraph: "It is an insult to call upon the taxpayer to support such nonsense." The letter came from a Mr Cross.



An estimated 3,600 jobs – 2.3 per cent of the workforce – are reliant on just one university; and the economic impact goes far further. Industry has built some of its own facilities to link up with academic institutions, leading to more construction, more jobs, and an all-round boost to the economy



■ **Joint implementation:** by Leyla Boulton

Pragmatists' idea fuels controversy

A look at the West's radical proposals to curb the emission of greenhouse gases

Western selfishness or cost-effective environmentalism? This is the main question hanging over a radical solution for tackling global warming by transferring energy efficient technology from developed economies to developing or former communist countries.

The solution comes in two stages. The first is known as "joint implementation", whereby industrialised-world countries and companies can claim credit against national targets by reducing emissions of greenhouse gases in developing countries.

The second – a more sophisticated version of the first – consists of proposals for international trading in permits to emit carbon dioxide, the best-known greenhouse gas.

The rationale for such an approach is that it can be much more cost-effective for western nations to cut emissions in developing countries, where energy efficiency is relatively low and improvements are relatively cheap.

Mr Richard Sandor, a former vice-president of the Chicago Board of Trade, who launched US trading in sulphur dioxide permits and then went on to develop the idea of carbon trading, says it makes for more pragmatic environmentalism.

"It's time to take the environment out of the warm fuzzy area," he says. "You've got to work out how to solve problems in the most cost-effective way."

Joint implementation is already being explored through pilot projects advocated at last year's Berlin climate change negotiations.

One example is the US Centre for Clean Air Policy's project in the Czech city of Decin. The centre convinced three US utilities – Wisconsin Electric Power, NIPSCo Industries, and Edison Development to contribute $300,000 each to the replacement of one of the city's five brown-coal district heating plants with a natural gas plant. Increased efficiency is achieved by switching fuels, installing energy control equipment, and introducing co-generation, which generates electricity as well as heating. The net result: a 6,000-tonne cut in carbon emissions from the fuel switch, and a 20,000-tonne reduction through co-generation.

Other environmental benefits from the Decin project include the virtual elimination of sulphur dioxide pollution, as well as ash-waste from the plant.

In contrast, carbon emissions trading exists only on paper, although it would be closely modelled on the existing US system for trading sulphur dioxide emissions.

Joint implementation and trading are variations on the same theme. But a report by the United Nations Commission on Trade and Development (UNCTAD) warned that the latter could prove more politically sustainable than the former.

"Any system which does not involve commitment from all nations is unlikely to be a final solution," it says. "The rich countries would probably soon weary of a scheme in which only they were committed. On the other hand, the system . . . could be a useful stepping stone . . . to the tradeable permit system."

Advocates of permit trading reject suggestions that it is a ploy to help rich countries wriggle out of making adjustments to their own cultures.

Mr Frank Joshua, UNCTAD's main advocate of carbon emissions trading, says a system could be developed that would initially give developing countries a surplus of permits and developed nations a deficit.

By enabling Germany to buy extra permits from Guatemala for cash or more efficient technology, such a system could help developing countries curb emissions while reducing the overall cost of achieving a net reduction of greenhouse gas emissions (see example, below).

In order to achieve such a net reduction, the overall amount of permits issued would also be set to correspond to the level of emissions the world decided it wanted to achieve.

> A permit trading system could be run by a UN agency

UNCTAD, which makes no secret of its search for a new mission, suggests that an international trading system could be organised by a special UN agency.

But it would be run like a self-regulating commodity market with supervision by the UN body, governments and the private sector.

Permits would be allocated according to a mix of criteria, which could include a country's level of emissions, population levels and relative "cleanliness" of production.

Some critics see the tradeable permits idea as too complicated ever to get off the ground, and prefer strict national reduction targets for individual countries. Scandinavian nations, for instance, are already wedded to carbon taxes, which have been rejected by the US.

Given such disagreements, joint implementation, followed by tradeable permits, an option promoted most actively by the US, may prove the most promising framework in the long-run. Nothing in that framework would preclude individual countries from adopting their own domestic tools – including taxation – to encourage greater energy efficiency and the development of other solutions to global warming.

How the JI figures stack up

The cost-effectiveness of emissions trading is illustrated by a simple numerical example. Imagine there are just two countries, each producing 100 tonnes of carbon dioxide a year, in a world that aims to reduce total emissions to 100 tonnes from 200 tonnes. The costs of reducing emissions in country A are $6 per tonne of carbon dioxide and $10 per tonne for country B. If each country reduced its output by 50 tonnes, the cost would be $300 plus $500, that is $800. But through trading, the two countries could vary their emissions, providing the total did not exceed 100 tonnes. They could trade emission permits so that country A cut output to 25 tonnes and country B to 75 tonnes.

In this case the total emission reduction cost would be $450 plus $250, or $700.

PROFILE The International Institute for Energy Conservation

Making the kindest cuts

The IIEC wants countries to associate energy conservation with economic growth


Clean-up road: in Chile, the IIEC runs a scheme to reduce traffic

The International Institute for Energy Conservation (IIEC), founded in 1984 and funded by governments and multilateral organisations, aims to help private sector companies break into emerging markets for energy efficiency.

Headquartered in Washington, with offices in London, Bangkok, and Santiago, the IIEC is also keen to maintain its reputation as an "honest broker" in fulfilling its main mission.

That is to help developing countries and nations in transition from communism to capitalism invest in energy policies that are good for both their economies and their environment.

As its US government funding falls off, it is keen to increase its own sources of revenue. It already requests and receives ad hoc contributions from energy-control companies such as Honeywell Europe. But it is now considering asking for a percentage of any deals it helps companies clinch in selling energy-efficient goods and services.

With an annual budget of $3m and a worldwide staff of 50, the IIEC has considerable amounts of intelligence on the domestic markets of the various countries where it does business.

Mr Russell Sturm, president of the IIEC, says its activities range from helping developing countries to assess energy efficiency and renewable energy technologies to working with companies anxious to break into those markets.

Among its achievements, it claims some of the credit for Thailand's adoption in 1991 of a national electricity conservation plan, the first to be established by a developing country.

In 1989, it opened an office in Bangkok to cover South East Asia. Having built up strong local contacts, it was then in a position to help institutions ranging from the National Energy Policy Office to the Electricity Generating Authority of Thailand devise the strategy.

Similarly, its office in Santiago, which covers not just Chile but neighbouring countries, is trying to help Chilean engineering companies turn themselves into companies that instal energy efficient technologies and repay themselves from some of the savings made.

Chilean projects it is involved in include plans for an executive bus service to ferry drivers of single-occupancy cars to work. The project's aim is to reduce both urban smog and carbon dioxide emissions.

Obstacles to its efforts include difficulties raising finance for relatively small-scale energy efficiency projects from a financial system that is skewed towards bigger projects. Another is getting energy prices to reflect the costs of environmental degradation.

International negotiations to reduce emissions of carbon dioxide, the best-known greenhouse gas associated with global warming, are a particularly promising source of new business for the IIEC.

The organisation is, for instance, involved in setting up joint-implementation projects (see story, left).

Joint implementation would enable countries to count as part of their own national targets reductions they helped other nations achieve through technology transfers.

Indeed, the IIEC sees an important part of its mission as encouraging suppliers of energy efficient technologies to market themselves as able to solve problems of environment and economic development. "A lot of the companies don't see themselves as reducing greenhouse gases," says Mr Patrick Keegan, director of the IIEC's climate change programme. "We let them know that if they sell energy-efficient refrigerators they are in fact part of the answer."

Since the fall of the Iron Curtain, the IIEC has also been active in eastern Europe from its London office. Falling industrial output as a result of restructuring puts the countries of eastern Europe in a particularly good position to deliver emission cuts at less cost than developed nations.

This in turn makes them attractive partners for joint-implementation projects. More and more countries, both in eastern Europe and the Third World, are coming to see joint implementation as an opportunity for technology transfers.

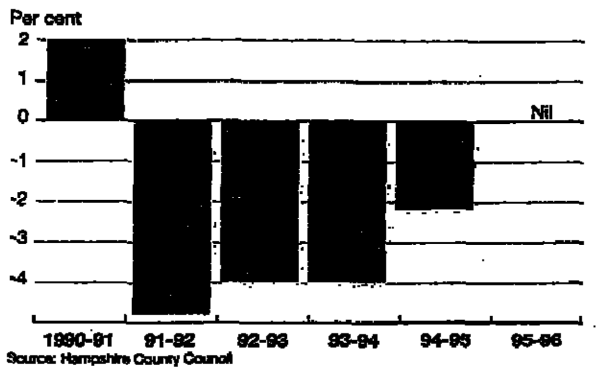
"What we want to do is stimulate examples of how this can work, what does successful joint implementation look like, and how you measure reductions in greenhouse gases," says Mr Keegan. Once this is achieved, he says, it is just a matter of time before the world moves on to even more sophisticated schemes for tradeable carbon dioxide emission permits.

"We want a win-win strategy for developing countries and a net global benefit for the world," says Mr Keegan. "If transferring emissions from one country to another achieves these two goals, then who can object to it?"

IIEC, 750 First St, NE, Suite 940, Washington DC. Tel (202) 842 3388. Fax (202) 8421565. Worldwide Web: http://www.crest.org/clients/iiec

Leyla Boulton

County spending compared to government's assessment of need



Source: Hampshire County Council

Open for business

Continued from front page

a £42m lottery millennium award, matched by funding from local government, which would include development of former defence land, and would be centred around a 165m-high tower. There are proposals, also, for a £100m rapid transit system to link Portsmouth, Gosport and Fareham which would ease traffic congestion and encourage economic growth. There are, however, concerns that the matched funding, which will have to be found from other parts of the city budget, could mean the area's social fabric might suffer.

Nevertheless, these developments are likely to boost tourism, which is already a big industry in Hampshire. The county attracts more than 16m visitors each year, with 42,000 people dependent on tourism for their jobs.

Elsewhere, Southampton is looking to expand its successful container terminal and refrigeration port facilities with proposals to build on the west of the harbour, where deeper water channels would allow bigger ships access to the port. This idea is proving controversial since it could encroach on the New Forest.

And in Portsmouth, the commercial port, which carries 3m passengers and 350,000 freight vehicles a year, last month unveiled a £13m, 11-acre expansion to its passenger and freight terminal.

One immediate challenge the county faces is Portsmouth's and Southampton's changeover to unitary status which takes place next spring. The changeover is likely to mean a relocation of many staff from Winchester, seat of the county council, to the two new unitary cities.

The two cities welcome the move as bringing decision-making closer to the centres the decisions affect, especially in education. However, it will also mean an increased workload for the city councils in new and unfamiliar areas. It may make co-ordination between authorities across the county more difficult, and there is a worry that the county could suffer from less clear leadership.

The economic picture Hampshire now presents is one of a county divided into three regions: the north, the central region and the south.

The north, centred around Basingstoke, Farnborough and Andover, finds itself increasingly pulled towards London, has done well, and probably has the infrastructure and location to repeat that success in the future.

The middle green belt of the county is home mainly to agriculture, which is still an important, if small, wealth generator for the county. About 80 per cent of Hampshire is classed as rural, but it accounts for only about 2 per cent of the workforce.

The south, meanwhile, has stagnated as defence has become less important.

Hampshire may benefit from the significant forward momentum of the north, but this may not be enough to offset the drag of the middle and south.

■ **Tourism and the countryside:** by Richard Adams

Welcome to Jane Austen Country

Visitor numbers get an unexpected boost from the latest fashion on the big screen

The popularity of the novels of Jane Austen, the most famous writer born and bred in Hampshire, has never been higher, bringing in its wake an economic boom for Hampshire's countryside.

The success of recent screen adaptions of her novels, including *Pride and Prejudice* and *Emma* in both Britain and the US, has been eagerly capitalised upon by Hampshire County Council. The country has been dotted with new road signs, welcoming drivers in the north of the county to "Jane Austen Country".

This year the council has produced a glossy brochure for tourists, detailing the areas of the county where the writer and her family lived.

The council has also done its best to bring Jane Austen's county to a modern audience, by setting up a Jane Austen Hotline telephone number ("Hello, this is Jane Austen, thank you for calling my hotline..."), and even a home page for her on the World Wide Web.

But the countryside is also attracting the attention of wealthy outsiders. A national survey in July by estate agents Knight Frank found that the market for manor houses in Hampshire was booming. Prices of country houses in Hampshire were the fastest growing in the UK, the survey found, with average values rising from £1.25m to £1.4m.

Part of the reason for the upswing, according to one index, is the easy commute to London. On that basis, Hampshire is just behind Wiltshire and Oxfordshire.

The main threat to this rural idyll comes, however, from pressure to build new housing estates that could cut into Hampshire's landscape. The government estimates the region will need 56,000 new homes in the coming years.

One company, Eagle Star, has drawn up plans to build 13,000 homes at the village of Micheldever, on 1,000 acres of land beside the railway line from Southampton to London. The Micheldever proposals are being fiercely opposed by local residents and the Council for the Protection of Rural England, but the site could be the first of several designed to meet the growing demand.

Planners at Hampshire County Council have earmarked open country for four "major development areas" near large towns that would provide for 17,000 residences. These would be north of Andover, north of Southampton, east of Basingstoke and north of Portsmouth. In most cases, the proposals involve good farmland and attractive countryside.

Closer to Southampton, two other projects are planned that will also cut into the countryside. Last August, Hampshire County Cricket Club received £7.1m in funding from the National Lottery, enabling it to go ahead with an ambitious plan to build a new stadium on 40 acres of land in West End, outside of the city.

The new stadium includes provision for 10,000 spectators, parking for 3,000 cars, shops, a leisure centre and a nine-hole golf course.

The project has been supported by Eastleigh Borough Council.

Meanwhile, the port of Southampton wishes to develop facilities on the western side of its harbour, by the edge of the New Forest, to allow bigger ships to use the port through the deeper water channels there. These plans, too, are being opposed by local people, who object to the encroachment on the ancient New Forest land.

The New Forest remains one of the great delights of the county, dating back to William the Conqueror's naming of the *Nova Foresta* as the first royal reserve in 1079.

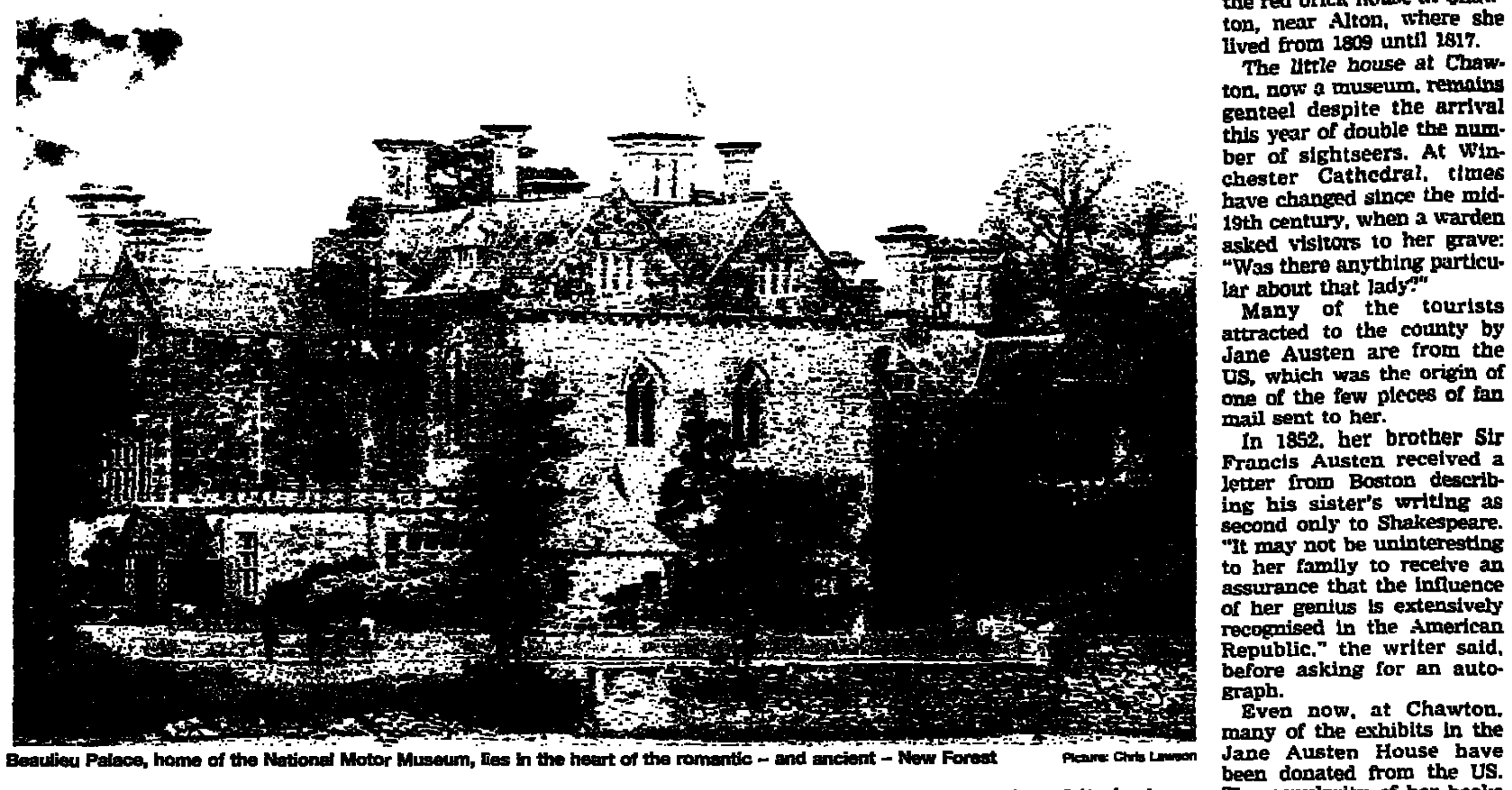
But for Jane Austen's fans, the past is another county. Those wanting to retrace the steps of Jane Austen's life, which she spent almost entirely within the county, will focus on Winchester Cathedral, where she was buried in 1817, and the red brick house at Chawton, near Alton, where she lived from 1809 until 1817.

The little house at Chawton, now a museum, remains genteel despite the arrival this year of double the number of sightseers. At Winchester Cathedral, times have changed since the mid-19th century, when a warden asked visitors to her grave: "Was there anything particular about that lady?"

Many of the tourists attracted to the county by Jane Austen are from the US, which was the origin of one of the few pieces of fan mail sent to her.

In 1852, her brother Sir Francis Austen received a letter from Boston describing his sister's writing as second only to Shakespeare. "It may not be uninteresting to her family to receive an assurance that the influence of her genius is extensively recognised in the American Republic," the writer said, before asking for an autograph.

Even now, at Chawton, many of the exhibits in the Jane Austen House have been donated from the US. The popularity of her books on screen, however, means the village is receiving more and more visitors from within the UK.



Beaulieu Palace, home of the National Motor Museum, lies in the heart of the romantic – and ancient – New Forest Picture: Chris Lawson

■ *For tourist information on Hampshire, including the brochure "Hampshire – Jane Austen Country", contact The Tourism Manager, Hampshire County Council, 7 Upper High Street, Winchester, Hampshire SO23 8UT.*

To call the Jane Austen Hotline, telephone 01703 629798.

World Wide Web page: http://www.hants.gov.uk/jausten.

For the New Forest, contact the New Forest Visitor Information Centre, High Street, Lyndhurst, Hampshire SO43 7NY telephone 01703 282269.

■ **Defence diversification:** by Jane Martinson

Marching to a new drum

After 200 years of military history, the transition period is proving painful

John Rees-Evans at the local county council believes Hampshire is unique. "We don't think there's a region anywhere in the world that has been home to the three armed forces," he says.

A military history spanning more than two centuries has left the southern county with a weighty legacy in this post-Cold War era of defence spending cuts.

Hampshire relies on defence spending more than any other county in the UK, according to York University's Centre for Defence Economics. It ranks in Europe's top 10 defence-dependent regions.

University and government research has estimated that 20 per cent of the county's workforce is either uniformed military personnel, in the civilian sector of the Ministry of Defence, or in a range of related industrial jobs.

With more than 500 local companies involved in defence markets, the county also has an unusually large proportion of big employers, including large suppliers such as Vosper Thornycroft, GEC-Marconi, and British Aerospace. Up to 80,000 people are employed in such companies, according to the local Training and Enterprise Council and governments reports.

All three armed services have large bases in the county. Aldershot is the UK army headquarters, the navy has a base in Portsmouth and the Royal Airforce is at Farnborough.

Latest figures suggest the county lost 13,000 defence-related jobs between 1989 and 1993 – between 1990 and 1993 there was a 13 per cent drop in military personnel. Mr Rees-Evans, head of economic development for the county council, says recent MoD announcements and consultation papers suggest 6,000 more could be lost before 1998.

"The huge continuing cuts in numbers of people in uniform has a knock-on effect in terms of housing, skills and spending in the service sector," he says. While losses in related industries are hard to estimate, the council believes the sector has declined by about 7,000 jobs.

The picture is not all bleak. The county retains a highly skilled workforce, and overall unemployment is relatively low. The decision by Thomson-Thorn, the defence electronics manufacturer, to relocate to Basingstoke this month suggests the county is continuing to attract some defence-related inward investment.

However, in pockets of the region which are the most dependent on the industry, the need to diversify has become acute. This is particularly the case in the south-east and north-east.

Neil Homer, strategy policy officer at Gosport borough council in the south-east, says a third of the area's workforce is employed in the armed forces, while a further third depends on this population for spending in the local economy. In the last 10 years the number of military jobs has more than halved. In spite of the ability of the highly skilled civilian workforce to find work in other parts of the county, the changes have still led to unemployment of about 8 per cent in 1995.

The trend to commuting has also exacerbated transport problems for the district, which occupies a peninsula.

The MoD has designated more than 600 ha of land to be decommissioned in Hampshire in the near future. Of this, 650 acres is in Gosport, representing 10 per cent of its area. Such land presents particular problems for developers, including access, contamination, listed building status constraints and location in environmentally sensitive areas.

In Gosport, the problem has been exacerbated because the four main sites to be decommissioned all come on to the market at the same time. Mr Homer fears a glut will depress prices in an area where industrial land is not at a premium. "It is simply counterproductive," he says. "You've got to look at the wider community perspective."

This perspective includes the need to address the "brain drain" caused by increased commuting, by using the land for office and industrial space and not housing, which is in greater demand. In spite of this, Priddy's Hard, an 18th century ordinance depot, will partly be used for homes and partly for tourism.

To help reduce its dependency on defence, the county has focused on increasing tourism and adapting its skills to commercial applications. In the past two years Hampshire council has applied for a total of £2.9m from Konver, a European Union initiative to support defence diversification. About £1.5m relates to tourist developments in the area and will be used to convert some of the listed buildings into heritage museums for example.

The rest aims to help the local population retrain or adapt their skills. Mr Rees-Evans says: "Very few companies are now 100 per cent dependent on defence. What's happening is that everyone is trying to shift the industry just slightly from military applications to civilian ones."

The Farnborogh New Technology Centre, part of this trend, is to create a series of small high-technology workshops linked with the Defence Evaluation Research Agency. The centre, which still needs funding, is to be built on the 30 acre site occupied by DERA before it moved to new nearby premises as part of the rationalisation.

Bill Cooke, head of economic development at Rushmoor borough council, saysthe aim is to encourage the small units to apply some of the defence breakthroughs for commercial use. "In the past some of the spin-offs from the breakthrough technology which have come out of Dera have ended up being developed abroad without any benefit to the area," he says.

In making its applications for funding, the county council is keen to emphasise the need for what Mr Rees-Evans calls a "big cultural change". Many companies in the area are able to produce extremely high-quality, highly regulated material with short-term production runs. The new emphasis must be on "commercial quality" and longer production schedules, he says.

After being dominated by two centuries of military history, however, Hampshire is not going to change overnight. Mr Homer at Gosport says: "Ideally, in the next five years I would hope to achieve an increase in new non-defence-related jobs. But it will probably take the best part of 10 to 20 years to refigure any part of the equation."

■ **Wind power:** by Leyla Boulton

Dream farm hides sad truth

Windfarms have yet to be accepted as a viable alternative to fossil fuel plants

When Europe's biggest windfarm was opened by National Power, the UK's largest electricity generator, last month it was hailed by Friends of the Earth as "an environmentalist's dream coming true".

But in general terms that dream – one of lots of renewable energy sources that create little waste and cause little environmental damage – is far from a reality.

In most of the world, wind power is still not seen as economically viable and remains dependent on subsidies and other official forms of encouragement.

"If we were to forget about environmental considerations, nobody would build a wind farm unless they had a particular reason to be enthusiastic about it," says Mr David Porter, chief executive of the UK's Association of Electricity Producers (AEP).

Mr Porter concedes, however, that in some situations wind power is already the energy source of choice – and not for environmental reasons.

Some developing countries, for example, do not have their own oil and gas. They find nuclear power too expensive and need, also, to supply remote communities with electricity.

Supplying electricity to 25,000 households, National Power's £26m wind farm at Carno in Wales, however, was made possible only thanks to subsidies from the UK government's Non-Fossil Fuel Obligation (NFFO).

This is a levy on electricity consumers designed to encourage renewables, ranging from small-scale hydro-power to wind and solar power.

NFFO subsidises the price of electricity from alternative sources in order to make it competitive with electricity generated by fossil fuels.

Advocates of wind power say that its costs are coming down all the time, and that these will continue to do so until it becomes fully competitive (see table, right).

The British Wind Energy Association argues that building a new farm is already more economic than developing a new coal-fired or nuclear power station.

Such advocates say the process of establishing wind power as a real alternative would accelerate if the UK government set a more demanding target for renewables.

Given that renewables already account for 2 per cent of UK energy supplies, the government's present target of 1,500MW capacity or 2.5 per cent by 2000 is not exactly ambitious.

The BWEA wants the UK government to stipulate that a third of its 2000 target be met by wind energy. It wants 5,000MW of wind energy capacity in place by 2010, or 4 per cent of present UK electricity demand, crowned by a 2025 target of 10 per cent.

While omitting to mention that the country has its own access to cheap reserves of oil and gas, it says that Britain, with "40 per cent of European wind resources" lags behind Germany, Denmark and Holland, despite the fact that they have far less potential for wind power.

It adds that its targets could cut unemployment and benefit trade. It estimates that achieving its 10 per cent target for 2025 could, for instance, create at least 13,000 new jobs, as well as build a strong domestic market that could, in turn, enable Britain to take advantage of future export opportunities.

Environmentalists also believe that growing concerns over climate change and other environmental problems will strengthen the case for renewables.

While some are concerned that the liberalisation of the UK energy market in 1998 will further undermine the rationale for developing more expensive alternative energy sources, others see it as opening up new opportunities for renewables.

Allowing consumers to choose their electricity supplier means that in theory they could have the option of picking a supplier of wind-generated electricity.

The AEP's Ms Nicola Steen says a level playing field could be created for renewable energy generators by ensuring that they will be "paid for the economic benefits afforded by their position on the electricity grid."

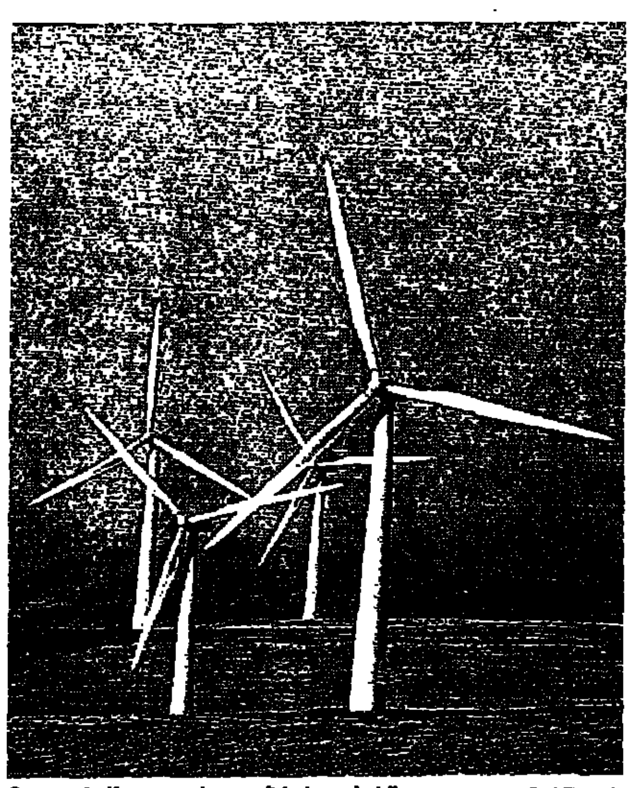
(The fact that renewable energy projects tend to be located in local networks means they are usually spared the cost of electricity lost in transmission, not to mention other costs associated with the UK's mainstream distribution grid.)

Writing in the latest issue of Powerhouse, a publication of the Parliamentary Renewable and Sustainable Energy Group, Ms Steen noted that even now studies show some consumers would be willing "to pay an extra few pounds to know they are supporting renewable energy projects".

"Many people would see the addition of, say, a seventh – perhaps £10 on their quarterly bills – as a cheap investment for their grandchildren," she says.

Meanwhile, the obstacles to renewables remain. Some believe that there will never be a level playing field until the price of energy from fossil fuel sources fully reflects the costs of environmental damage.

In the UK another impediment to the development of wind power has been a peculiarly British outcry against its disfiguring effect on the landscape. Local authorities are believed to have turned down three-fourths of applications to build wind farms, usually for aesthetic reasons.



Carno windfarm: made possible by subsidies Paul Glendell

Contribution of renewable energy (Petajoules)

	World [1] 1990 PJ	EU-15 1990 PJ
[illegible]	[illegible]	[illegible] [2]
Hydro	20,250	2,550 [3]
Solar thermal	[illegible]	[illegible] [4]
Solar electricity	7	0.1 [5]
Wind	40	2 [6]
Geothermal	500	51 [7]
Total	[illegible]	[illegible]
Total %	17.7	7.1

Source: European Environment Agency

1 Figures from WEC report 1993 "Renewable Energy Resources. Opportunities and Constraints 1990-2020 (WEC, 1993). Electricity is converted to primary energy by using 1TWh = 0.222 (Mtoe 1 toe = 41.9 10^9 J)
2 Biomass from EC, 1995a: 185 PJ is biomass fuel input for electricity production
3 Hydro from EC, 1995a: corresponds with primary energy consumption of 250 TWh, average thermal efficiency of 38.71% in 1990
4 Solar thermal is 3.5 million m² solar collectors, saving 1.5 GJ/m² from ESIF,1995
5 Solar electricity production of about 10GWh, average thermal efficiency of 38.71% in 1990 (EC,1995a)
6 Wind installed capacity of 400MW producing 700GWh, average thermal efficiency of 38.71% assumed (EC,1995a)
7 Geothermal electricity about 6.2 TWh produced in Italy and about 20PJ heat (EC,1995b).

Wind power in Germany, Netherlands, Denmark and UK

	% of European wind resource	Approx current capacity (MW)	No of turbines (approx)	Targets	Electricity consumption %	Wind resource utilised % 1994	Direct jobs
Germany	[illegible]	[illegible]	4,100	250MW* by 1995	0.4	15.7	5,000
Denmark	7	630	3,900	1,500MW by 2005	3.7	6.3	8,500
Netherlands	4	[illegible]	1,000	1,000MW by 200[illegible]	[illegible]	3.85	800
UK	40	200	550	1,550MW renewables by 2000	0.18	0.42	1,300

Source: British Wind Energy Association * Exceeded

■ **Energy saving companies in eastern Europe:** by Leyla Boulton

The $500m plan for saving money

The EBRD wants private investors to help the former communist bloc cut energy waste

The European Bank for Reconstruction and Development likes to claim that it is the only bank in the world with an energy efficiency team.

True or not, the bank is using that team to try to help eastern Europe forge a win-win strategy on energy efficiency.

Accustomed to cheap supplies and abundant waste under its communist past, the region offers vast scope for saving money on energy use.

The bank reckons that all-in-all, eastern Europe, where the opening of a window is often the most effective thermostat, could annually save the same amount of energy as a handful of west European countries consume in a year.

To prove the point, it cites statistics suggesting that in 1992 the amount of energy required to produce one unit of GDP in eastern Europe was three times as great as in western Europe.

The EBRD is focusing on the establishment of escos – energy savings companies – as its main tool for encouraging investment by the private sector in energy efficiency.

Escos make the investment in energy saving equipment and install it, sparing the client any upfront expense, and then recoup their investment by sharing the savings made with the client.

Mr Clive Bates, of the International Institute for Energy Conservation, a London-based lobby group, notes, however, that there are two main obstacles to investment.

One is the danger that companies that exist today might not tomorrow under the impact of economic restructuring. The second is that subsidised energy prices remain even lower than in the west and therefore the incentive to invest is not as high as it might be. But Mr Peter Hobson, the EBRD's principal banker for energy efficiency, describes esco investment as "a one-way bet" *in so far as* if "energy prices go up, the savings go up, too."

As for the problem of which clients to pick, Mr Hobson says that there are "plenty of good well-managed companies" in the region, despite a misleading perception in the west that virtually all business in the east is "on the brink of disaster".

Potential "clients" range from public sector schools, hospitals and district heating companies, to private sector businesses. "The sky's the limit because everybody uses a lot of energy," says Mr Hobson.

But paradoxically enough, because of nervousness about the stability of private sector companies, Mr Hobson says "there is a trend for escos to be more comfortable with the public sector – hospitals are not supposed to close."

The bank's mission is to act a catalyst, encouraging private sector investment that would not otherwise be made.

Typically, it puts up a third of the money for projects, with private companies investing the rest.

Options for payment range *from "an agreement* whereby cash flow from the client will go through a bank or an escrow account to securing it with some form of collateral."

However, Mr Hobson notes that while "local banks are not eager to lend on the basis of future energy savings", even western banks "don't understand this type of risk analysis. They're still very conservative and cautious".

The EBRD's first loan for an esco was $5m to Prometheus, a Hungarian energy service company taken over in 1992 by Compagnie Générale de Chauffe, a subsidiary of the French conglomerate Compagnie Générale des Eaux.

This was followed last week by the signing of a bigger $50m facility – combining debt and equity – to Générale de Chauffe to expand further its energy saving activities in Hungary and other East European markets such as Slovakia.

Under the agreement, Générale de Chauffe is due to invest another $100m in the project unless it finds other investors to take part.

Also up for possible agreement this month is a $90m EBRD facility to help Landis & Gyr of Switzerland establish four regional escos for Poland, Hungary, the Czech Republic and Slovakia.

The EBRD's overall aim is to mobilise around $500m over four years for esco investments – including $150m from its own funds. It says it is in negotiation with leading western energy-control companies, such as the US-owned Honeywell Europe, which see esco projects as "the only way of cracking the eastern European market".

Despite the difference in scale of the problem posed by energy inefficiency, analysts such as Mr Bates point out that many of the obstacles to greater energy efficiency in eastern Europe are similar to those that occur in the west.

While the economics of energy efficiency may "stand up very well", *he says not all* companies have a sufficiently strong incentive to make the investments, while market entrance barriers for energy-saving companies tend to be high.

In addition, Mr Bates says that while some bigger companies or at least energy-intensive ones in the west are making considerable efficiency gains, "the difficulty in the commercial sector is that energy typically is a small part of costs ... 4 to 5 per cent".

This means that unless "companies are massive, it is difficult to get them to focus" on energy efficiency.

■ **Solar power:** by Andrew Baxter

Too few photo opportunities

High costs still make it difficult for the solar energy industry to fulfil its potential

Like other renewable forms of energy, solar power generates as much controversy as it does heat and light, and at present does not make a big contribution to energy efficiency.

As Greenpeace points out, energy from the sun is clean, renewable and so abundant that the amount that the earth receives in 30 minutes is equivalent to all the power used by humankind in a year. In the UK, it says, the amount of solar energy falling on buildings could meet almost two-thirds of electricity demand.

Yet the world market for solar power remains small. Only about 70MW-80MW of photovoltaic (PV) cells – the most important element of solar electric technology – were produced last year, enough to power one small city.

It is not for want of trying. Hundreds of millions of dollars have been spent by the solar power industry over the past 30 years, with the support of government programmes. Consequently, the total cost of PV systems has fallen from tens of thousands of dollars per watt in the 1960s to about $6.

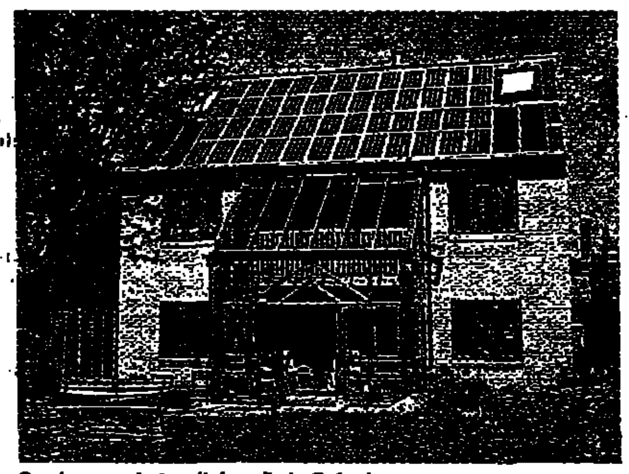
Yet, as Greenpeace concedes, analysis of the full financial costs and benefits of solar power shows that a unit of solar electricity still costs between four and 10 times as much as a unit of conventional electricity.

Reducing the cost of solar power is a priority. However, according to Mr Eldon Boes, head of the US National Renewable Energy Laboratory's Washington office, there is no single cost-per-watt target that needs to be achieved.

It is more a question of whittling down the cost of solar power in general, Mr Boes and other industry officials believe. This involves increasing the light-conversion efficiency within the cells, which normally consist of a thin layer of silicon semiconductor material; building better and more efficient solar collector modules and arrays; cutting manufacturing costs by developing better production processes and techniques; and improving so-called "balance-of-systems" components – the batteries, mounting structures and power conditioners that enable PV power to be used properly.

In terms of megawatts of PV cells supplied, the solar power market is now growing at a healthy rate of 15-20 per cent a year. But it is developing from a small base, and energy efficiency is not a factor – or at any rate is not the most important factor – in some of the most promising applications. For instance, solar energy is well established in industrial applications such as telecommunications, pipeline protection, navigational aids and offshore oil platforms – where electricity from the grid may be unavailable or impractical.

Similarly, as Intersolar Group, the UK's only manufacturer of PV cells, points out, the fastest-growing sector for PV is rural electrification, where the systems are used to provide power to off-grid villages, households, farms, hospitals and local industries. Intersolar says there is a great need for low-cost devices to bring electrification to rural communities – from developing countries such as Indonesia to remote areas of the industrialised West.



Sun house: photovoltaic cells in Oxford *Martin Bond*

Brain power: solar technology in student residences, university of Strathclyde, Glasgow *Martin Bond*

Across Europe, there are several projects that show that energy efficiency *can* become a prime motive for installing solar power, which can then provide a more or less self-sufficient, "green" alternative to grid electricity from a power station.

In the UK, the Oxford Eco House, a detached house in the northern part of the city, has 48 solar panels incorporated into its south-facing roof to generate electricity, along with several others for heating water. By using passive solar design principles (designing the house to catch as much of the sun as possible), high levels of insulation and low-energy domestic appliances, the Eco House can claim to be a "zero-energy building". Any extra electricity that is needed from the grid during the winter or at night is compensated for by the surplus PV-generated power the house sells to the grid during the day.

A much larger solar electric project has been built this year in Amsterdam. The Nieuw-Sloten development integrates solar panels producing a total of 250KW into the roofs and façades of 71 houses, although it is expected that the system will provide enough electricity to meet the annual needs of 100 houses. As with the Oxford Eco House, the performance of the system will be closely monitored.

The solar energy industry and its supporters believe governments can help promote such energy efficiency schemes. Backing for research and development can help reduce the cost per watt of solar power, as shown by recent experiences in the US, but a whole range of market-based initiatives, including subsidies for building solar power projects and premium rates for the solar-generated electricity fed back into the grid, have been introduced in continental Europe, Japan and elsewhere.

In the UK, the solar industry has been pushing for PV power to be included in the government's Non-Fossil Fuel Obligation, which subsidises electricity produced from renewable sources.

One other strategy is suggested by Mr Allen Barnett of AstroPower, the US solar power company. US consumers are well-known for their attraction to new technology, he notes, but are not buying roof-top PV systems in large numbers. Apart from the high cost, the difficulty of integrating the systems with the grid and measuring the energy produced may be deterrents. So it is essential that the industry produces "user-friendly" PV systems.

■ **Nuclear industry:** by Simon Holberton

Hopes rest on changing reputation

The Green lobby, once the scourge of nuclear power, could help reverse its decline

Talk to executives in the nuclear industry and you detect a growing optimism. "There is a mood out there that nuclear is coming back, even though there is no need to build more power stations yet," says Mr Roger Hayes, director-general of the British Nuclear Industry Forum, Britain's nuclear lobby.

The reason for optimism is founded on a paradox.

The environmental movement, the industry's Nemesis in the 1970s, is now seen as its saviour. The prospect of global warming and the fact that nuclear power plants produce no greenhouse gases augurs well, industry advocates believe.

Voices also can be heard bemoaning the rate at which the rich world is consuming fossil fuels, and also warning of the political and strategic risks the west runs by becoming over-dependent on these fuels. Look at Russia today and the Middle East as it might be a decade from now, they argue, and a prudent energy policy demands a role for nuclear.

The need for conservation, dependence on fuels that lie in unstable parts of the world: these are the twin strands of the argument for bringing nuclear back in from the cold.

"We cannot solve the next energy crisis," says Mr Mark Baker, chairman of Magnox Electric, the state-owned nuclear utility that generates 8 per cent of Britain's electricity. "But we can help with the one after."

Such optimism is a far cry from the realities of today.

"I don't think anyone does anything on the basis of environmental considerations," says Mr Steve Thomas, senior research fellow at the Science Policy Research Unit, University of Sussex.

"If it were a close-run thing on the economics of nuclear versus other forms of generation, then environmental considerations might help it, but it is not."

A 1,000MW gas-fired plant today costs in the region of £400m and takes less than two years to build. By comparison, a nuclear plant of a similar size would cost between £2bn and £3bn and take up to eight years to build. For this reason alone, the nuclear industry in the west is in a state of long-term decline.

At the end of 1995, there were 437 nuclear reactors in operation throughout the world. They met 17 per cent of the world's need for electricity and supplied 6 per cent of the world's total energy consumption.

But growth in installed capacity had slowed to a crawl. Only four plants came into operation last year and their geographical distribution tells a now familiar tale. The concentration of new build is taking place in the newly industrialising countries of Asia, such as India and South Korea, and Ukraine.

One station came on line in the First World; that was Sizewell B. However, its connection to the UK grid was not taken as an indicator of the future, rather it was seen as a marker of where the UK's civil nuclear programme got to before the boom was lowered. Similarly, the proposed merger of GEC Alstom and Framatome, the French nuclear equipment manufacturer, is a move that has been brought about by the contraction in the nuclear market – an attempt to preserve a skills base rather than the creation of economies of scale.

Asia is spoken of as the only growth area for nuclear power. Taking a closer look, however, it is China and South Korea where most promise lies. This is especially true of the former, where the nuclear programme has the personal backing of the prime minister, Mr Li Peng.

> A large business is now to be had in waste management

China currently has only three nuclear reactors producing electricity. It hopes to have another eight in operation by the end of the century and to have installed nuclear capacity of between 40GW and 50GW by 2020.

Elsewhere, plans by Indonesia and Thailand to develop a nuclear industry have met environmental opposition before one clod of earth has been moved. In Taiwan, the industry faces fierce opposition in parliament.

With the outlook for new plant hazy the industry is concentrating on managing with what it has. This has given rise to nuclear gerontology: the development of techniques to extend the lifetime of ageing nuclear plant.

Companies such as British Nuclear Fuels and Cogema of France, are evolving into the morticians and undertakers of the industry. A large business is now to be had in waste management, decommissioning nuclear plants, and the safe storage of the kit left over.

BNFL expects that the entire clean up of former nuclear sites operated by the US military could eventually cost in the order of $200bn.

The nuclear industry in the west knows that it cannot afford another Chernobyl. "One more of those and we really do have a problem," says Mr Baker. "That's why we're providing so much assistance to the former eastern bloc countries."

Continued from page 1

particularly clear in the fall in the cost of renewable energy sources, which can be classed as part of energy efficiency in the widest sense.

Subsidies are raised through levies on electricity producers and consumers, to boost both energy efficiency in the narrow sense and renewable energy sources. But Offer, the UK electricity regulator, has made no commitment to perpetuating such levies after 1998.

Against this background of disarray in the industrialised world, obstacles in poorer countries may seem even more daunting.

The International Institute for Energy Conservation, a non-profit making organisation that seeks to promote energy efficiency in the developing world, says the international financial system is skewed against energy efficiency projects.

This is because individually the projects are small-scale, even though considered collectively the market potential is very large.

Crucial to tackling global warming will be the developed world's imagination in helping other countries improve energy efficiency.

Although the industrialised world accepts prime responsibility for the problem, its efforts could soon be made irrelevant by increased emissions from fast-growing countries such as China.

This is why schemes are emerging to transfer technology to developing countries so they, too, can take part in the fight against global warming.

Such schemes include pilot projects to explore the concept of "joint implementation". Joint implementation strategies enable industrialised nations and companies to count against national reduction targets any emission reductions they achieved in third countries, mainly through technology transfers.

In the former Communist world, the European Bank for Reconstruction and Development is trying to promote the development of energy saving companies, which invest in energy efficiency projects and then repay themselves out of clients' energy savings.

The opportunities to generate new business in energy-efficient technology, with so much official help on offer, are a powerful incentive for far-sighted businesses to get involved.

■ **Asia:** by Frank Gray

New progress in power struggle

Outside agencies are helping Asian governments solve huge output problems

Energy efficiency has now come to the fore in Asia's fast-growing electricity supply sector. The region's energy ministries and planners have discovered that economic growth is not dependent just on more power-generating capacity but also on more efficient delivery of output.

As a consequence, more countries are shifting their focus to energy transmission and distribution at one end of the scale, and the production of more efficient air conditioners, refrigerators and light bulbs at the other.

The shift stems from chronically huge losses in power transmission. Supply losses of 25 per cent to 30 per cent are common throughout the region, notably in south Asia. A senior aid agency official says that the figure is as high as 65 per cent in India – 30-35 per cent in technical losses and theft and a further 30 per cent in "failure of the billing process".

"Consider that the remaining 35 per cent that is transmitted, and for which billing takes place, is heavily subsidised and you have nothing that remotely represents a commercial operation," he says.

Throughout the 1990s, the Asian Development Bank, the World Bank and various bilateral aid agencies have been pushing for privatisation of electricity for three reasons:

- to boost power supplies in a part of the world where the per capital ratio of supply to demand is only 1:10. (In the west, in comparison, it is 1.5:1);
- to relieve project development funding pressure on troubled national treasuries;
- to encourage the development of a commercial mentality that will lead to the level of energy supplies commonplace in the west.

The development banks and agencies recently turned their attention to transmission and distribution. In some cases, such as the Philippines, they found that private sector power generators were being installed without provision for new power lines.

In Pakistan, the government's privatisation programme, which has seen financial agreement on 16 independent projects, is now focusing on the eventual sell-off of area electricity boards (AEBs). The US Wing group was recently awarded a management contract to run the Lahore and Gujranwala AEBs.

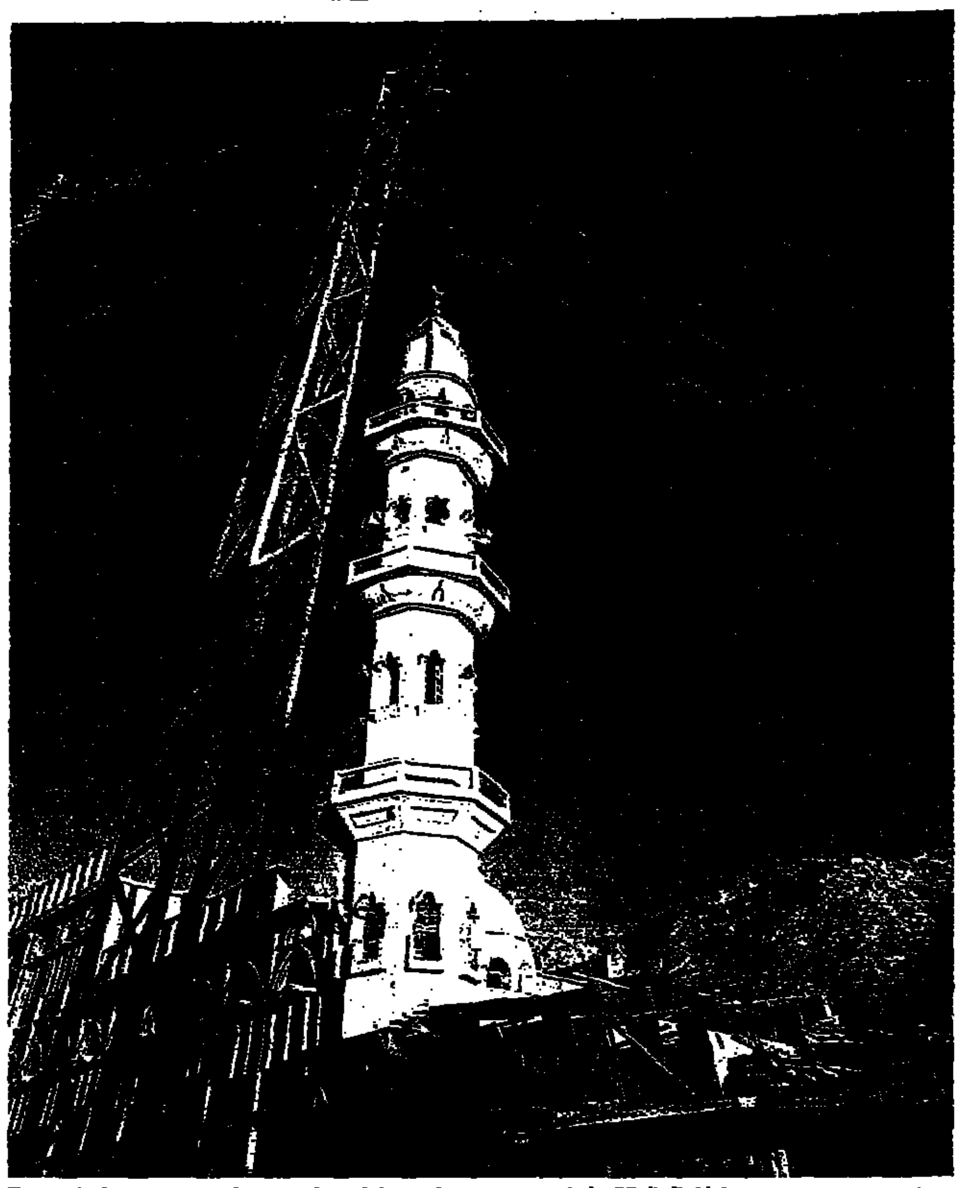
Government officials say the main reason for selling AEBs is to control corruption, power pilferage, line losses and general inefficiency – all of which dramatically reduce output and mean there is little income available for reinvestment.

In India, the New Delhi government is drafting legislation that would allow state electricity boards to be divided into generation, transmission and distribution companies to enable them to operate more efficiently.

Delhi would like to see the more than two dozen state electricity boards operate like the private sector Bombay Suburban Electricity Supply company, a profitable and expanding power distributor whose electricity losses are a fraction of the state boards.

India's problems are highlighted by the fact that of 83,000MW of installed capacity, just 53,000MW is available, while demand stands at 73,000MW. If all plant operated efficiently, there would be no need to add new capacity to make up the difference, officials point out.

A more finely honed approach to electricity efficiency, known as Demand Side Management (DSM), is taking root in parts of south-east Asia where electricity theft and technical losses run at 15-20 per cent. Indeed, the Manila government last year introduced punitive fines and prison sentences for power thieves.



Transmission transgression: tapping of the main power supply in Gilgit, Pakistan Sarah Murray

The DSM programme centres on the International Institute for Energy Conservation (IIEC), whose Bangkok office has helped focus government policy on the consumer end of the market (see story, page 3).

Under IIEC prodding, the Electricity Generating Authority of Thailand (EGAT), the state utility, reached an energy-efficiency agreement in 1993 with the manufacturers of straight-tube fluorescent lamps. Under the deal, production is being converted from T-12, 40-watt and 20-watt lamps to T-8, 36-watt and 18-watt lamps, which provide the same amount of light but use 10 per cent less energy. The DSM office has also designed programmes for refrigerators, air conditioners and compact fluorescent lamps.

Mr Terry Kraft-Oliver, the IIEC's Bangkok managing director, points out that air conditioning saps up to 60 per cent of all electricity consumed in office buildings. "It is an area where great efficiencies can be achieved," he says.

Mr Kraft-Oliver's words are not to be taken lightly. A five-year programme designed for EGAT foresees a savings target of up to 284MW, the equivalent of a medium-size power station, or savings of $300m or more.

The Thai government's legislation has teeth. It has an Energy Conservation Promotion Act, which focuses on businesses and buildings with more than 1,000 kilowatts of demand or an annual fuel use of 35m BTUs. "These facilities must designate an energy conservation manager, undertake a preliminary audit, and write and submit an energy conservation plan to the Department of Energy within two years," says Mr Piyasvasti Amranand, secretary general, national energy policy office of Thailand. Last year, about 2,500 factories and 900 large buildings fell into this group of "controlled" facilities.

The Energy Conservation Promotion Fund has been set up to help facilities plan for and carry out energy-efficiency upgrades. The fund draws its resources from a tax on petroleum and natural gas products. It held $400m at the end of 1995.

In recent years, the IIEC, a Washington-based non-profit organisation, has turned its attention to the Philippines, which has south-east Asia's fastest-privatising power sector. The Department of Energy recently mandated that all utilities create DSM programmes.

Energy is a sore point in the Philippines, where 12-hour brown-outs were the norm in the early 1990s due to energy waste and inadequate supply. The IIEC says that the Energy Regulatory Board needs to establish a framework that will allow utilities to recover the costs of their DSM programmes.

Two studies on DSM potential in the Philippines foresee huge scope. In the new 1994-2010 period, the American consultants SRC International and IIEC-Asia estimate savings of 900MW, or 3,660 gigawatt hours per year – a net benefit of $550m. Analysing 1995-2003, the consultants RCG Hagler Bailly predict savings of 391MW and a net benefit of $128m.

It is the IIEC's belief that the office, factory and household ends of the electricity cycle offer as much opportunity for savings as the production, transmission and distribution end.

Frank Gray is editor of Power in Asia, an FT energy newsletter publication.

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

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OTHER INVESTMENT TRUSTS

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INVESTMENT COMPANIES

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LEISURE & HOTELS

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LEISURE & HOTELS - Cont.

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LIFE ASSURANCE

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MEDIA

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OIL EXPLORATION & PRODUCTION

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OIL, INTEGRATED

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OTHER FINANCIAL

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PAPER, PACKAGING & PRINTING

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PHARMACEUTICALS

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PROPERTY

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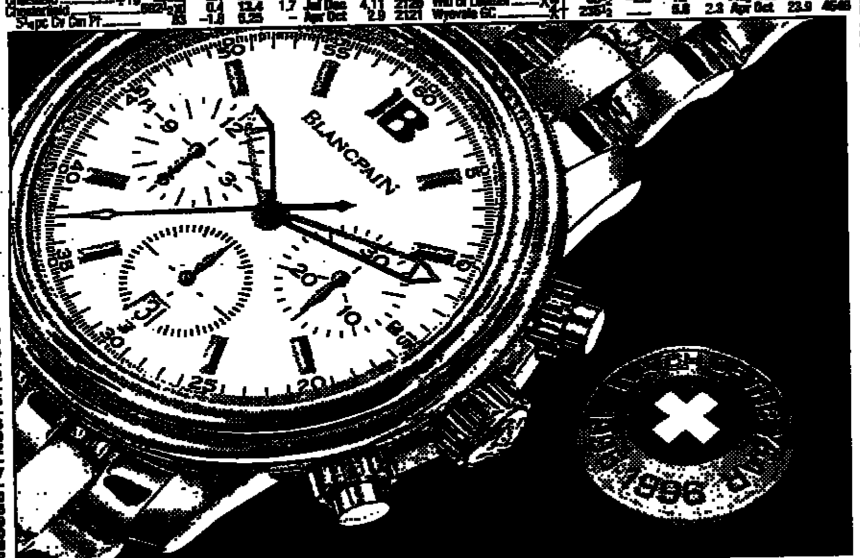

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AMERICANS

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CANADIANS

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SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind	g	£20½xd	-4.7	Q545c	φ	May Oct	2.9	–
Barlow	$†	£9¼	-2.7	Q87c	–	Jan Jul	17.6	–
Gold Flds Prop R		125½	1.1	Q60c	1.5	Mar Sep	28.2	–
NK Props.		62	–	Q6.8c	–	Mar Sep	9.95	–
SASOL	♥	645	–	Q76c	–	Oct	9.93	–
SA Brews		£15½	-3.0	Q208c	φ	Jul Dec	3.6	4113
Standard Bank		£22½	-5.6	Q284c	3.1	Sep Mar	–	–
Tiger Oats	†	790	–	Q114c	3.0	Jan Jul	10.6	–
Tongaat-Hulett		684xd	-4	Q136c	φ	Jan Jun	20.5	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ¥ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996 L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: **Additions:** Lomond Underwriting (Insc), Thistle Htls (Leis), ISS B (SpSv) and Fitness First, Interoute Telecomms, Victory Corpn (AIM). **Deletions:** Morgan JP (Amer), Shaw (A) (BldM), Motor World (EngV) and Templeton Emrg C (IvTs).

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Offshore Funds and Insurances

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LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

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OTHER OFFSHORE FUNDS

WORLD STOCK MARKETS

Highs & Lows shown on a 52 week basis

EUROPE

AUSTRIA (Nov 8 / Sch) · BELGIUM/LUXEMBOURG (Nov 8 / Frs.) · CZECH REP (Nov 8 / Koruna) · DENMARK (Nov 8 / Kr) · FINLAND (Nov 8 / Mkk) · FRANCE (Nov 8 / Frs.) · GERMANY (Nov 8 / Dm.) · GREECE (Nov 8 / Drachma) · ITALY (Nov 8 / Lira) · NETHERLANDS (Nov 8 / Fls.) · NORWAY (Nov 8 / Kroner) · POLAND (Nov 8 / Zloty) · PORTUGAL (Nov 8 / Escudo) · SPAIN (Nov 8 / Pts.) · SWEDEN (Nov 8 / Kronor) · SWITZERLAND (Nov 8 / Frs.) · TURKEY (Nov 8 / Tk Lira)

PACIFIC

JAPAN (Nov 8 / Yen) · AUSTRALIA (Nov 8 / Aust$) · HONG KONG (Nov 8 / H.K.$) · INDONESIA (Nov 8 / Rupiah) · MALAYSIA (Nov 8 / MYR) · NEW ZEALAND (Nov 8 / NZ $) · SINGAPORE (Nov 8 / S$) · SOUTH KOREA (Nov 8 / Won) · TAIWAN (Nov 8 / TW $) · THAILAND (Nov 8 / Baht)

AFRICA

SOUTH AFRICA (Nov 8 / Rand)

NORTH AMERICA

CANADA

TORONTO (Nov 8 / Can $) 4 pm close

MONTREAL (Nov 8 / Can $) 4 pm close

INDICES

US INDICES

Dow Jones	Nov 8	Nov 7	Nov 6	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6219.83	6206.04	6177.71	6219.83 (8/11)	5032.94 (10/1)	6219.83 (8/11/96)	41.22 (8/7/32)
Home Bonds	103.78	103.43†	103.38	106.89 (14/2)	100.99 (15/7)	108.77 (16/10/93)	54.99 (1/10/81)
Transport	2183.69	2179.40	2161.90	2296.20 (22/5)	1882.71 (18/1)	2296.20 (22/5/96)	13.23 (8/7/32)
Utilities	234.77	235.68	234.07	235.68 (7/11)	204.86 (30/7)	256.45 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 6247.40 (6238.83) Low 6151.62 (6130.38) (Theoretical‡)
Day's high 6222.08 (6222.81) Low 6181.07 (6149.79†) (Actual‡)

Standard and Poors	Nov 8	Nov 7	Nov 6	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	730.82	727.55	724.59	730.82 (8/11)	598.48 (10/1)	730.82 (8/11/96)	4.40 (1/6/32)
Industrials♥	6219.83	853.71	849.74	6219.83 (8/11)	702.07 (15/1)	6219.83 (8/11/96)	3.52 (30/6/32)
Financial	80.09	79.88	79.72	80.09 (8/11)	58.67 (10/1)	80.09 (8/11/96)	7.13 (4/9/74)
NYSE Comp.	386.32	384.91	383.55	386.32 (8/11)	321.41 (10/1)	386.32 (8/11/96)	4.54 (25/4/42)
Amex Mkt Val	580.39	579.25	577.87	614.99 (22/5)	525.80 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1257.50	1254.14	1245.49	1258.10 (15/10)	988.57 (15/1)	1258.10 (15/10/96)	54.87 (3/10/74)

■ RATIOS

	Nov 1	Oct 25	Oct 18	Year ago
Dow Jones Ind. Div. Yield	2.15	2.15	2.12	2.41
	Nov 6	Oct 30	Oct 23	Year ago
S & P Ind. Div. yield	1.89	1.95	1.92	2.04
S & P Ind. P/E ratio	23.58	22.80	23.15	18.23

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Pepsico	5,478,400	31½	+1¼
AT & T	4,894,800	35¾	+⅛
Iomega	4,387,800	24½	-⅜
Amer Online	3,473,000	28	+1¼
Westinghse	3,052,500	18¾	+1
Dime Bancp	2,823,900	15⅞	+¾
Merck	2,743,400	80¾	+1⅜
Lowes Co's	2,358,200	40¼	+¾
Conrail	2,317,800	98¼	+3¼
Lucent Tech	2,245,500	48⅞	-⅜

■ TRADING ACTIVITY

● Volume (million)

	Nov 8	Nov 7	Nov 6
New York SE	405.047	504.516	511.582
Amex	21.742	23.673	20.651
NASDAQ	(a)	669.342	640.036
NYSE			
Issues Traded	3,277	3,277	3,282
Rises	1,302	1,400	1,715
Falls	1,080	1,058	757
Unchanged	895	819	810
New Highs	217	242	299
New Lows	36	40	43

INDEX FUTURES

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ CAC-40							
Nov	2226.5	2209.0	-4.0	2229.0	2205.0	10,104	20,757
Dec	2232.0	2214.0	-4.0	2229.0	2211.5	447	20,252
■ DAX							
Dec	2740.0	2743.5	+11.5	2755.5	2737.5	17,615	
Mar	2761.0	2762.0	+6.0	2774.0	2758.5	211	
■ OMX							
Nov	1692.00	1683.00	-1.00	1700.00	1684.00	2,679	26,894
Dec	1704.00	1694.00	-2.00	1704.00	1694.00	198	3,566
■ SOFFEX							
Nov	3823.0	3809.0	-7.0	3831.0	3806.0	3,814	21,455
Dec	3824.0	3812.5	-6.5	3833.0	3813.0	423	1,900
■ S&P 500							
Dec	730.85	734.25	+3.30	734.50	727.90	87,126	188,695
Mar	737.00	740.75	+3.30	740.80	734.50	1,067	7,732
■ Nikkei 225							
Dec	20900.0	21280.0	+350.0	21280.0	20820.0	31,294	214,664
Mar	20890.0	21290.0	+340.0	21290.0	20880.0	410	14,818

Open interest figures for previous day.

‡ Industrial, plus Utilities, Financial and Transportation. ● Excluding bonds. ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, November 8, 1996

	Stocks Traded	Closing Prices	Change on day
Clarion	11.0m	626	+30
Nippon Steel Cp	9.1m	336	+6
Green Cross Corp	6.2m	517	+80
Kawasaki Steel	5.3m	350	+6
NKK Corp	5.0m	288	+1
TYK Corp	4.8m	1290	+140
Sumitomo Seika	4.7m	594	+54
Mitsubishi Hvy	3.2m	896	-2
Mitsui Fudosan	3.1m	1410	
SS Pharmaceutical	3.1m	881	+39

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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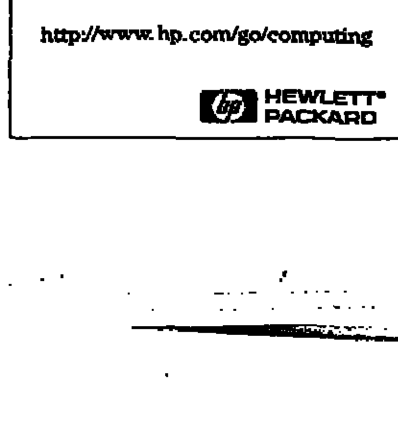
4 pm close November 8

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
31¼	17¾	AAR	0.48	1.6	26	177	30⅛	29½	29⅞	-⅛
46⅛	33	AMP x	1.00	2.9	16	7125	34½	33⅝	34	-⅜
87½	68	AMR			17	6865	86¾	84⅞	85¼	-1⅛
50½	37⅜	ASA	1.40	3.5	28	803	39⅞	39	39⅝	+⅜
53⅞	38⅛	AbbtL	0.96	1.8	22	7933	u53⅞	52½	53⅛	+½
17¼	12¼	Abitibi Pr	0.40	2.8	7	604	14½	14¼	14½	+¼
20¼	13½	ABM Ind	0.35	2.1	17	72	17	16⅝	17	+¼
21¾	13⅞	Acptncelo			45	109	u21¾	21½	21⅝	
58½	37¾	ACE Ltd	0.56	1.0	14	1189	58⅞	58¼	58⅜	+⅛
10⅜	9⅛	ACM Gvt In x	0.90	8.7	9	348	u10⅜	10¼	10⅜	
7⅞	6⅝	ACM GvOpp x	0.57	7.8		51	7¼	7⅛	7¼	
9¾	8⅞	ACM Man x	0.90	9.4		95	9⅝	9½	9⅝	
13⅞	6½	Acme Elect	0.32	4.4	55	55	7½	7¼	7¼	
18⅞	13⅞	Acme Mills			13	62	18¾	18⅜	18½	-⅛
33¾	27¾	Acordia	0.72	2.5	14	16	29⅛	29	29⅛	
23⅛	12	Acuson			110	696	u23⅛	22¾	23⅛	+⅛
20½	17⅞	Adams Expr	0.48	2.3	1	225	u20½	20⅜	20½	+⅛
21¼	10¼	AdvMic			21	8610	20¾	20⅛	20⅜	
11⅞	8½	Advest Grp	0.16	1.7	6	86	9⅞	9¼	9⅞	
28⅝	9⅛	Advo Inc	0.10	0.7	108	383	14⅛	14	14⅛	
53½	41⅛	Aegon	1.45	2.7	16	109	u53½	53¼	53½	
6¾	3½	Aerflx			3	75	4⅝	4½	4⅝	
70⅞	57⅝	Aetna	0.80	1.2	9	13918	69⅛	68¼	68½	+½
44	28¼	Aflac§	0.40	0.9	18	4165	u44	42½	42¾	-⅛
22	17⅛	AGL Res			18	618	u22	21½	21½	-⅛
32½	21¼	Ahmanson x	0.88	2.8	55	3907	31⅞	31¼	31½	



Continued on next page

NYSE PRICES

4 pm close November 8

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
33¾	22¼	SchwMaud	0.60	1.9	18	217	31½	31¼	31⅜	-¼
20⅞	12	SciAtl	0.06	0.4	64	1280	14⅜	14	14¼	+⅛
24¾	17	Scotman	0.10	0.4	13	112	u24¾	24½	24½	
49¾	38½	Scripps	0.52	1.0	28	108	u49¾	49½	49⅝	+⅛
18½	12⅝	ScudderNAF	0.02	0.2		330	13	12¾	12⅞	+⅛
14½	11	ScudderNEuF	0.16	1.2		81	14	13¾	13⅞	
20¾	14¾	SeaCnA x	0.77	4.9	21	363	15⅝	15⅜	15⅝	
16	15	SeaC1.4625	1.46	9.4		10	15½	15⅛	15½	
77¾	36½	S'gate			36	16089	75⅜	72⅞	74	-½
38⅝	30⅞	Seagrm	0.61	1.6	26	2345	u38⅝	37⅜	38⅝	+1⅛
26	17⅛	Seagull En	1.20	5.6	51	342	21½	21⅜	21½	
42⅛	28	Sealed Air	0.64	1.6	28	680	41¾	41	41⅛	-¾
53⅞	38¼	SearsR	0.92	1.9	18	6164	49⅜	48	49⅛	+1⅛
22¾	19¼	SeCpSBI$	1.24	5.7	15	1114	22½	21¾	21⅞	-⅝
13	11⅞	Seligm Sel	0.84	6.7		86	12½	12⅜	12½	
23¾	13⅞	Sensormat x	0.22	1.3	13	879	17½	17¼	17½	
46½	29½	SequaA	0.60	1.4	46	19	42	42	42	-⅛
53⅝	39	SequaB	0.60	1.0	60	10	52	52	52	-
31¾	19½	ServCp	0.24	0.8	28	1690	29⅞	29⅝	29¾	
26⅝	19½	Sthr	0.68	2.7	15	388	25½	25⅛	25½	+⅛
6¼	4⅜	ShrMerch			14	1387	6	5⅞	6	
58⅞	28½	SGSThm			12	4476	u58⅞	56¼	58⅝	+1⅜
15⅝	10⅝	Shaw Ind	0.30	2.8	29	549	11⅝	11⅜	11½	+¼
14⅜	10⅛	Shelby Wil x	0.32	2.3	15	32	14	13⅞	14	
101½	78⅝	ShellTr	3.46	3.6	20	186	97⅜	95¾	97⅜	+1⅝
55⅝	39	SherWil$	0.70	1.3	21	1340	55	54	55	-⅛
13⅝	7⅛	Shoneys			9	4637	8½	7⅞	8½	+1¼
35½	18¼	Showboat	0.10	0.5	83	1435	18½	d18⅛	18⅜	-⅛
28⅜	22¾	Sierra Pac	1.18	4.2	12	242	28½	28¼	28⅜	-¼
6	3⅜	SignalApp			0	27	3⅝	3½	3⅝	+¼
29⅜	20	Signet Bnk x	0.84	2.9	17	809	29¼	28⅞	28⅞	-⅛
30⅜	17⅞	SiliconGr			104	5041	20	19½	19⅞	+⅛
27⅝	24¼	SimonDOil x	1.97	7.2		1239	27⅜	26¾	27⅜	+⅜
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- U -

- V -

- W -

- X - Y - Z -

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AMEX PRICES

4 pm close November 8

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close November 8

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

FT GUIDE TO THE WEEK

MONDAY 11

CBI conference opens

The Confederation of British Industry annual conference opens in Harrogate, with businessmen's attitude to European economic and monetary union high on the agenda. A survey of members' opinions will show how far the CBI is split on the single currency. Speakers include Michael Heseltine, the deputy prime minister, and Gordon Brown, the shadow chancellor.

WTO to open up telecoms

Trade officials meet in Geneva to push forward World Trade Organisation talks on liberalising basic telecom systems. The talks should have ended last April but the deadline was postponed to February 1997 because Washington was not satisfied. More countries have since announced plans to open their telecom markets.

EU on single currency

EU finance ministers meet in Brussels to discuss preparations for the planned single currency. Germany wants tough penalties for those countries in the future Euro zone that run up excessive budget deficits. Others, however, are resisting an overly rigid approach. Tax harmonisation in the single market is also on the agenda.

German budget meeting

The parties of the ruling coalition of Helmut Kohl, the German chancellor, meet in Bonn to agree on how to share DM3bn (£2.8bn) of spending cuts so that next year's federal deficit does not exceed the already-planned DM56.5bn. The austerity drive is part of Germany's efforts to meet the Maastricht criteria next year and so qualify for Emu in 1999. The Bundestag budget committee will finalise its 1997 draft federal budget on Thursday.

Public holidays

Belgium, Bermuda, Bhutan, Canada, Cayman Islands, Colombia, France, French Guiana, French W Indies, Guam, Guyana, India, Maldives, Netherland Antilles, Poland, Puerto Rico, Singapore, Tahiti, US (most states), Virgin Islands. Armistice Day.

FT Surveys

Hampshire and its Cities; Energy Efficiency.

Salman Rushdie will pick up his literature award in Copenhagen after all on Wednesday now that the Danes have agreed to guarantee his safety

TUESDAY 12

Euro MPs discuss fraud

Euro MPs meeting for their monthly plenary session in Strasbourg will be presented with the annual report of the Court of Auditors, the EU's spending watchdog, on management of EU funds and fraud in the union. It is expected to call for extensive reforms of the union's multi-billion dollar social fund.

China on rat-killing spree

China celebrates a rat-killing day in Beijing. The Chinese calendar's year of the rat has proved profitable for rat-catchers: earlier this year the city of Shenyang eliminated 400,000 rats, with each carcass worth 8p. The campaign comes the day before Margaret Thatcher, the former British prime minister, makes a two-day visit for an international conference on Chinese trade and investment opportunities.

Court considers UK hours

The European Court of Justice delivers its judgment on whether the UK must implement the EU directive limiting the maximum working week to 48 hours. The British government claimed the directive should be covered by its opt-out to the Maastricht social chapter. But a preliminary ruling in March found against the government, and it is rare for the full court to reach a different conclusion. If the ruling is not overturned, the UK has threatened to block any EU reforms proposed at the intergovernmental conference.

Business forum in Egypt

A three-day Middle East/North Africa economic conference, hosted by the government of Egypt with the World Economic Forum, will enable the international business community to meet state officials and private-sector workers. More than 3,000 people from 90 countries are expected at the conference, the third of its kind aimed at integrating the region's economy.

Report on Swiss accounts

Hanspeter Häni, the Swiss banking ombudsman, releases his first report on his search for dormant bank accounts of victims of the Nazi holocaust. Mr Häni, who is in charge of processing all claims made by holocaust victims and their heirs, is expected to reply to accusations that after 2,000 inquiries and 1,000 formal claims he has rejected every claimant for the past year.

Saleroom

New York sees its big winter sales of impressionist and modern art at Sotheby's and Christie's. Sotheby's is offering works by Degas, Manet, Monet, Gauguin and Matisse, while Christie's on Wednesday has two paintings by Monet which could each reach $10m (£6.1m), plus a $6m Van Gogh garden scene. Also on Wednesday at Sotheby's George Ortiz is selling an 18th century silver tureen which could fetch $8m.

FT Surveys

Atlanta – the Olympic Legacy; Quebec.

Public holidays

Bhutan, India, Maldives, Taiwan.

WEDNESDAY 13

Leaders act on hunger

Pope John Paul II will open a world food summit in Rome (to Nov 17) at which more than 100 world leaders will endorse measures to reduce hunger and increase food security. It is thought Fidel Castro, the Cuban president, will attend, raising the possibility of a meeting between the communist leader and the pope. The summit, organised by the United Nations Food and Agriculture Organisation, will set the achievement of food security for all as its goal and adopt a plan of action.

Nato debate in Spain

Spain's parliament begins a two-day debate on plans to bring the country fully into Nato's new military set-up. Although Spaniards approved Nato membership by referendum 10 years ago, the country has officially been outside the alliance's integrated military command structure.

However, the centre-right government can now count on broad backing from the opposition socialists, who were against joining Nato in the early 1980s. Plans to demote the British colony of Gibraltar from its role as a Nato command have removed an obstacle to Spanish integration. The main opposition will come from the communists.

THURSDAY 14

Bosnia peace monitored

Foreign ministers from the G-8 countries, the EU, the Organisation of Islamic Countries, and rival leaders from former Yugoslavia attend a meeting of the Peace Implementation Council in Paris. They will discuss the extent of international engagement in Bosnia after December 20, when the Dayton peace agreement expires.

Public holidays

Bhutan, British Virgin Islands, Jordan.

FT Surveys

Isle of Man; Australia.

FRIDAY 15

Elections to Czech senate

Two days of voting begin for the Czech Republic's new upper house of parliament, the senate. Polls suggest the chamber will be fairly evenly divided between the two largest parties – the centre-right Civic Democrats of Vaclav Klaus, the prime minister, and the centre-left Social Democrats led by Milos Zeman, the chairman of parliament. Although the senate will have little real power, the election could have a bearing on how long Mr Klaus's government remains in office. Mr Klaus lost his parliamentary majority in June.

Local elections in Brazil

Municipal elections in Brazil take place which will have important implications for President Fernando Henrique Cardoso's efforts to alter the constitution to allow him to run for re-election. In Sao Paulo, a strong victory by Celso Pitta, the candidate of the leader of the conservative PPB party, Paulo Maluf, would bolster Mr Maluf's presidential ambitions and could lead him to oppose the constitutional change.

Japan mid-results peak

Japan's interim corporate results reporting season comes to a peak, when 200 companies are to publish their financial performance for the six months to September 30. Most manufacturers have reported only small profits gains on their domestic operations because of the dull state of the Japanese economy. However, they have made a killing on export markets, because of the fall in the value of the Japanese yen.

German wise men meet

The German government's council of economic advisers produces its annual forecast and report on the economy. The so-called "five wise men" are expected to predict relatively slow growth of between 1.5 and 2 per cent next year following recent news of rising unemployment and falling industrial orders and production.

FT Surveys

Macedonia; Austria.

Public holiday

Brazil, Ivory Coast Republic.

SATURDAY 16

Zik of Africa buried

Nnamdi Azikiwe, Nigeria's first president and a pioneer of African independence, is buried in his hometown Onitsha – six months after his death. Ousted by a military coup in 1966, Azikiwe – known as Zik – is the first Nigerian president to have died of natural causes. His burial has been delayed because its location became a bitter political issue. It was eventually decided the funeral should be in his own house exactly 92 years after he was born.

Racing

The Gold Cup, at Cheltenham racecourse.

Public holiday

Netherland Antilles.

SUNDAY 17

Iliescu in run-off ballot

Ion Iliescu, the former communist who has led Romania since 1989, faces a tightly contested run-off for the presidency. Mr Iliescu, who is seeking a third term, emerged at the head of 16 candidates in the first round of voting. However, he was only four points ahead of Emil Constantinescu, of the centre-right Democratic Convention.

Primakov visits China

Yevgeny Primakov, the foreign minister of the Russian Federation, arrives in China for a two-day visit. A foreign ministry spokesman said the two sides would "exchange views on bilateral relations and international issues of common concern".

Thailand chooses MPs

Thailand holds national elections to choose 393 members of parliament. They will select a prime minister to replace the outgoing Banharn Silpa-archa, whose government lasted 14 months. The front-runners for the premiership are General Chavalit Yongchaiyudh, the leader of the New Aspiration party and former commander-in-chief of Thailand's armed forces, and Chuan Leekpai, the leader of the Democrat party and prime minister between 1992 and 1995. Each of the two parties are expected to win 125 seats at most, with the rest coming from more than 10 smaller parties.

Public holiday

Azerbaijan.

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ECONOMIC DIARY

Other economic news

Monday: Factory gate inflation in the UK is thought to have been stable last month, although the annual rate of decline in raw material costs should have slowed. German retail sales volumes are forecast to have picked up a bit in August.

Tuesday: Inflation in France is not expected to have changed in October, while Canadian raw material prices should have been growing more slowly.

Wednesday: UK unemployment is expected to have continued falling last month, albeit at a more modest rate than in September. Factory gate inflation in the US is forecast to have been stable.

Thursday: The Bank of France holds its monetary policy meeting. The underlying rate of inflation in the UK is expected to have climbed to at least 3 per cent last month, with the headline rate also rising. Japanese consumer spending is thought to have risen in the year to September.

Friday: US industrial production is thought to have stabilised in October following the small rise which had been recorded in the previous month.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Oct overall wholesale price indx*	0.3%	0.1%
Nov 11	Japan	Oct overall wholesale price indx**	0.5%	0.0%
	Japan	Oct domestic wholesale price indx**		-0.8%
	Germany	Aug retail sales, real**		2.5%
	Germany	Aug retail sales, real*†		-1.9%
	Germany	Oct final cost of living, West*		-0.1%
	Germany	Oct final cost of living, West**		1.4%
	Germany	Oct final cost of living, pan-Ger*	0.0%	-0.1%
	Germany	Oct final cost of living, pan-Ger**	1.5%	1.4%
	Czech Rp	Sep industrial production, real**		5.8%
	UK	Oct producer price indx input*	0.0%	0.3%
	UK	Oct producer price indx input**	-2.3%	-2.9%
	UK	Oct producer price indx output*	0.1%	0.4%
	UK	Oct producer price indx output**	2.2%	2.2%
Tue	Japan	Sep mchnry ordrs ex elec pwr & shps**	11.1%	11.4%
Nov 12	Canada	Oct raw material price indx (adv)*		2.1%
	US	Redbook 9 Nov		0.2%
Wed	UK	Oct unemployment	-20.0k	-34.6k
Nov 13	UK	Sep average earnings	4.0%	4.00%
	UK	Sep unit wages 3mnth**	4.7%	4.50%
	US	Oct producer price indx	0.2%	0.2%
	US	Oct producer price indx ex fd & enrgy	0.2%	0.3%
Thu	Japan	Sep overall personal consumptn exp**	1.4%	2.4%
Nov 14	Japan	Sep income (workers)**		2.4%
	Denmark	Nov consumer confidence	+5	+5
	UK	Oct retail price indx*	-0.3%	0.5%
	UK	Oct retail price indx**	2.4%	2.1%
	US	Oct retail sales	0.5%	0.7%
	US	Oct retail sales ex automobiles	0.4%	0.4%
	US	Oct consumer price indx	0.3%	0.3%
	US	Oct consumer price indx ex fd & enrgy	0.2%	0.3%
Fri	Japan	Sep shipments†		1.3%
Nov 15	Japan	Sep industrial production†		1.0%
	France	Aug current account†	FFr7.2bn	FFr0.9bn
	Italy	Sep industrial production** not†	-2.1%	-11.3%
	US	Oct industrial production	0.0%	0.2%
	US	Oct capacity utilisation	83.1%	83.3%
	US	Sep business inventories	0.4%	0.5%
	US	Oct bank credit		5.0%
	US	Oct C&I loans		22.4%
	Japan	Oct trade bal (customs cleared) not†		Y540bn
	Finland	Sep industrial production**	2.0%	1.8%
During the week...				
	Norway	Oct consumer price indx**		1.5%
	Switzlnd	Oct producer price indx**		-3.0
	Japan	Oct Tokyo department store sales**		4.0%
	Brazil	Oct trade balance	-$550m	-$655m
	N'lands	Oct unemployment rate	6.7%	6.7%
	N'lands	Q2 gross domestic product final*	1.3%	1.1%

*month on month, **year on year, †seasonally adjusted

Statistics, courtesy MMS International

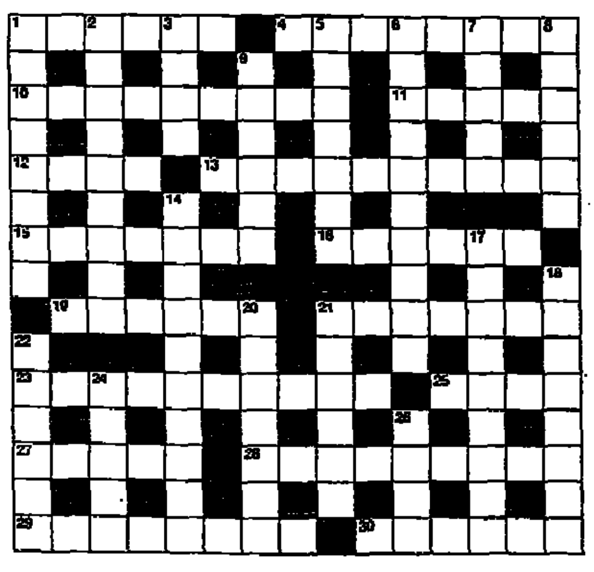
MONDAY PRIZE CROSSWORD

No.9,222 Set by BATS

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday November 21, marked Monday Crossword 9,222 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 25. Please allow 28 days for delivery of prizes.

Name..

Address..



ACROSS

1 Diocese on the boil (6)
4 Dispensed about half the drug, once the ultimate high for felons (8)
10 Salt, endless Fats, and Gore beneath the thorax (9)
11 Mild panic evident in the manner of seamen (5)
12 Instrument with point, without point (4)
13 Like gremlins, be mischievous (10)
15 Scheme is cast (7)
16 Shelter's variable in a squalid area (6)
19 Open classy prawn cocktail (6)
21 Note, not just swings and roundabouts (7)
23 Art agenda, very experimental (5-5)
25 Late notice caused angler's disappointing day? (4)
27 Scent approaching Cologne, we hear? (5)
28 Omen undulating (quote) from right to left, and active (9)
29 Memory aid for score, perhaps? (8)
30 Sound fuel for flier (6)

DOWN

1 Carriage open, hats off (8)
2 Duck spread (9)
3 Raised surface breaking potential speed with momentary pause? (4)
5 Part of volcano to burn top off over the years? (7)
6 Showy male entertains another in apartment (10)
7 It took a pig to catch a mammal (5)
8 Bats turns up on time for payment (6)
9 Take down two suffixes (6)
14 One often desired both, rather unfortunately (5-5)
17 Banal tour round eastern capital (4,5)
18 After port drunk, Bats upset at code of conduct (8)
20 Set a personal problem, find a psychological treatment? (7)
21 Fiddle demonstrated by gifted virtuoso (6)
22 Abandon on island in the shade (6)
24 Roughly displayed in a fight (5)
26 Giant, therefore elevated (4)

Winners 9,210

P.E. Carter, Oldham
K.T. Bailey, Wigston, Leicester
B. Cole, Amersham, Bucks
Mrs D. Hayim, West Didsbury, Manchester
Mrs M. Imber, London EC1
P.A. Terry, Wokingham, Berkshire

Solution 9,210